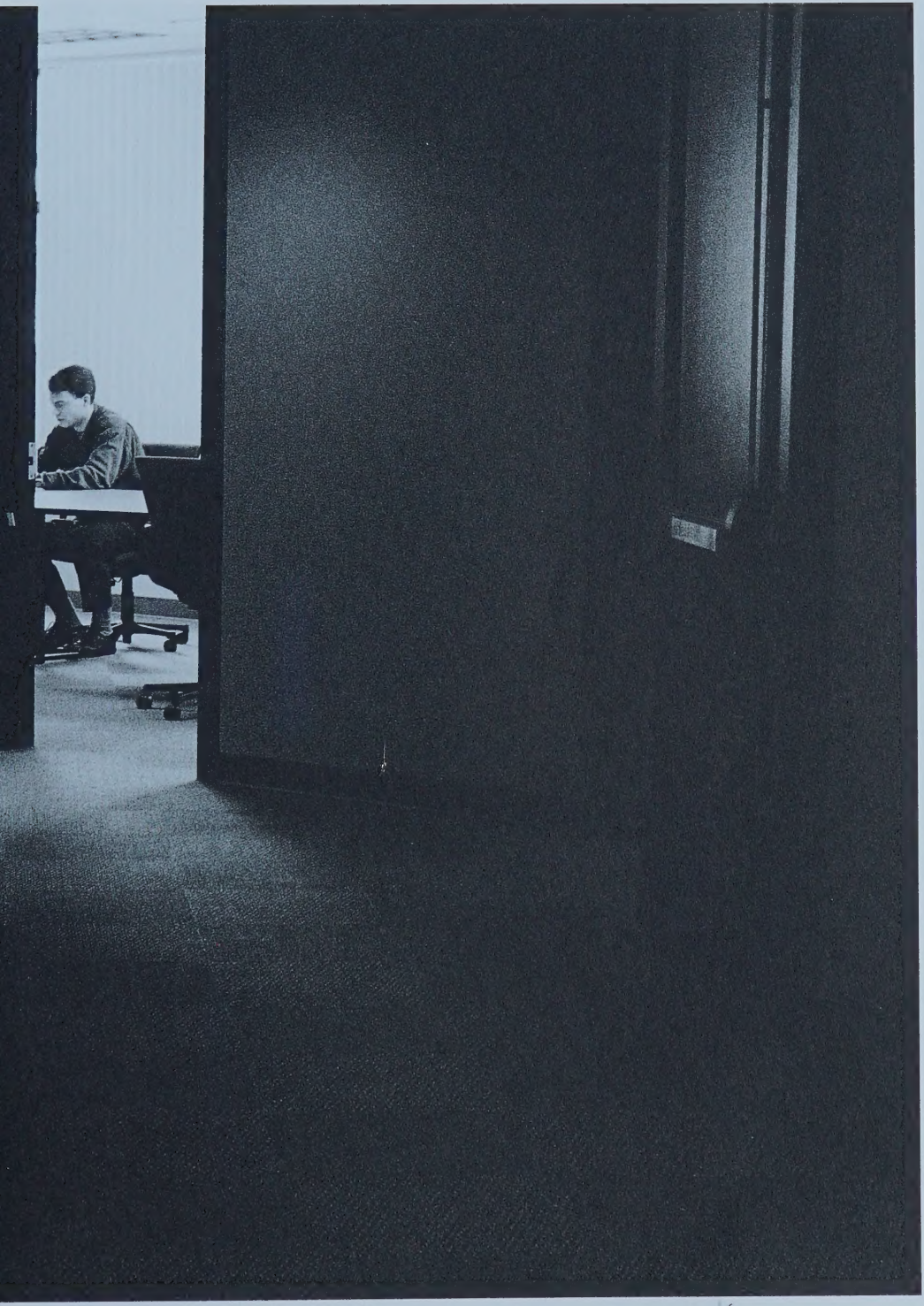
BECAUSE


QLT Inc.

WE'RE NO LONGER
A "WHAT IF?"

THE LEADING CAUSE OF BLINDNESS IN MEN AND WOMEN OVER 50 WAS UNTREATABLE UNTIL NOW.


WE BEAT
THE ODDS.




FLIP OFF
0768-150-15
Visudyne

VISUDYNE MAY
WELL BECOME
ONE OF THE MOST
SUCCESSFUL BIOTECH
PRODUCTS EVER.


WE'VE RECEIVED
APPROVALS IN
35 COUNTRIES.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
FOOD AND DRUG ADMINISTRATION

LICATION TO MARKET A NEW DRUG, BIOLOGIC, OR AN ANTIBIOTIC DRUG FOR HUMAN USE

(Title 21, Code of Federal Regulations, 314 & 601

ANT INFORMATION

APPLICANT

PHYSICIANS BELIEVE
IN THE VALUE OF
OUR SCIENCE.

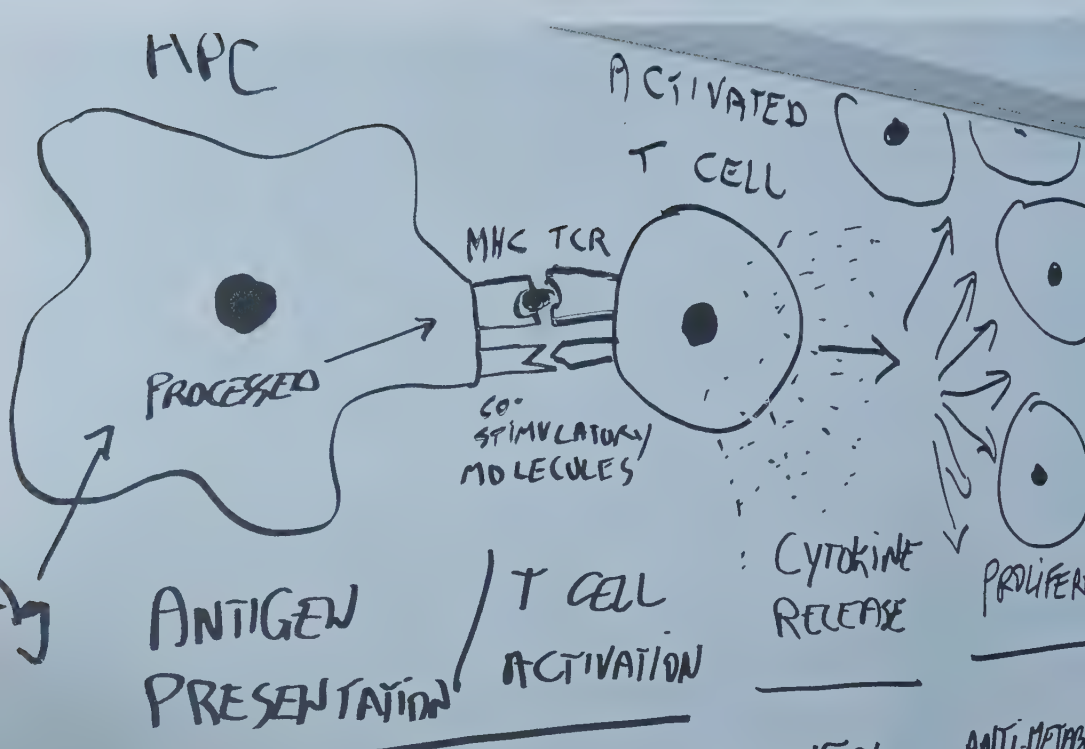
PATIENTS KNOW THE POWER OF OUR PRODUCTS.

WE'RE ONE OF
ONLY 14 PROFITABLE
BIOTECH COMPANIES
IN THE WORLD.

THE DEMAND
FOR OUR PRODUCTS
IS GROWING.

OUR PEOPLE ARE SECOND TO NONE.

WE'RE COMMITTED
TO RESEARCH AND
DEVELOPMENT.



MHC
- TCR BLOCKERS

- ANTI-COSTIMULATORY MOL.
  - → LFA3TIP → CD2
  - → CD11a → CD3
  - → CD40 → CD4
- MHC VACCINES

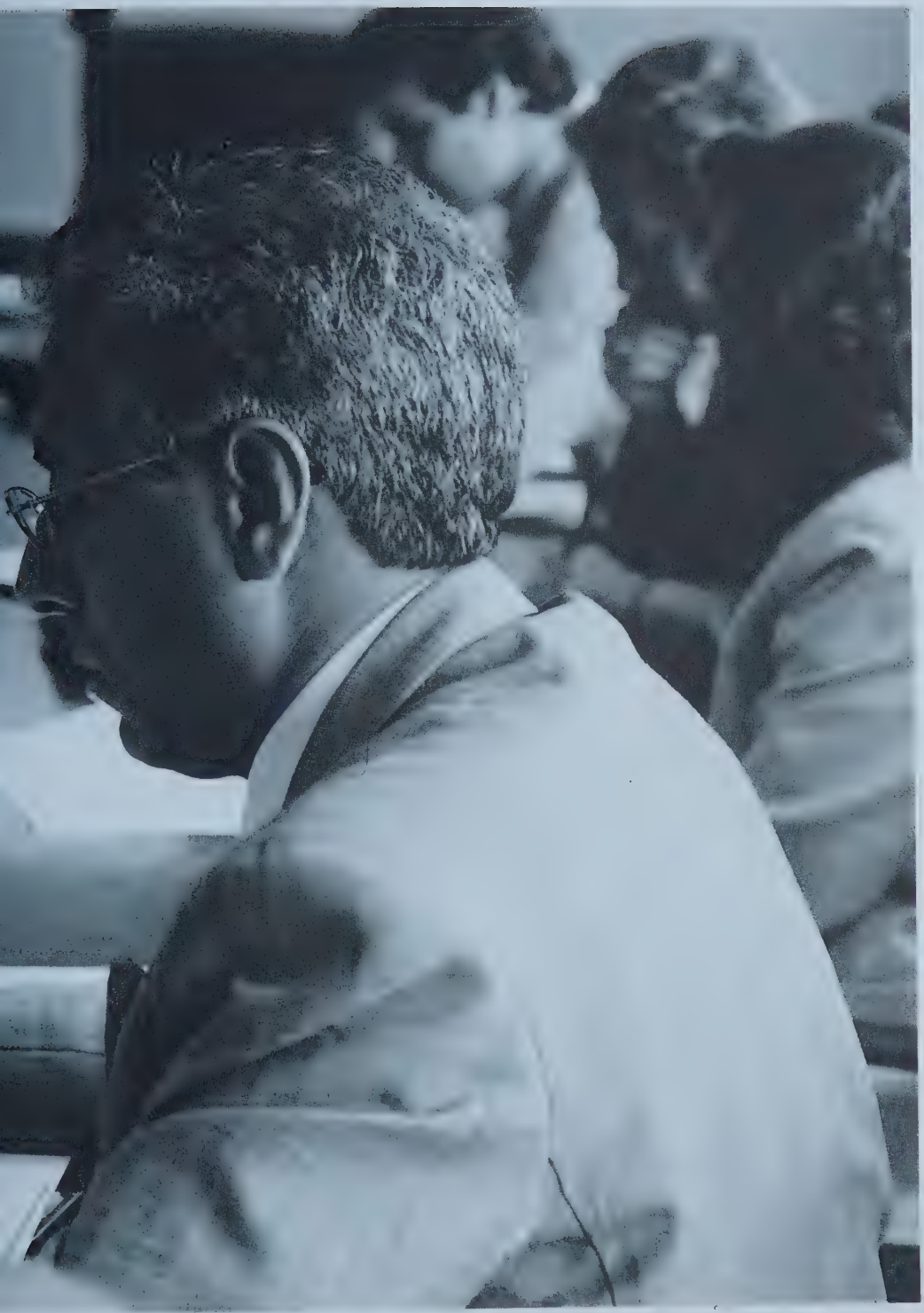
- TNFα
- IL-1
- IL-8
- IL-15
- IFNγ
- IL-12

ANTI-INFL.
IL-10

- ANTI-METAB
- ANTI-PROLI
- MTX, CYA

WE'RE EXPLORING
NEW INDICATIONS
FOR OUR
TECHNOLOGY.


OUR BALANCE
SHEET IS STRONG.



WE LOVE
WHAT
WE DO.

BD

WE'RE BETTER NOW
THAN WE WERE THEN.

WE'RE NOT AS
GOOD AS WE'RE
GOING TO BE.


OUR BUSINESS
IS SCIENCE.

OUR PRODUCT
IS LIFE.

When you consider all the reasons to believe in QLT, it's easy to see why we've become one of the leading companies in our field – because of our innovative science, because of our dedicated people, because of our groundbreaking work in photodynamic therapy. Ours has always been a compelling story but never in our 20 year history have the reasons for this been as plentiful as they are today.

TO OUR
SHAREHOLDERS

And at the top of the list is Visudyne™ therapy, a drug we shepherded from laboratory discovery through three rounds of clinical trials and the scrutiny of regulatory authorities around the globe, starting with Switzerland in December 1999, and followed by U.S. Food and Drug Administration approval in April 2000, Canadian approval in May 2000, and European Union approval in July 2000.

SELECTED FINANCIAL DATA

Year ended December 31	2000		1999[1]		1998[1]	
(In millions, except per share information)	$ Cdn.	$U.S.	$ Cdn.	$U.S.	$ Cdn.	$U.S.
Revenues						
Revenue from Visudyne	37.4	24.9	—	—	—	—
Royalties on product sales – PHOTOFRIN	1.0	0.7	2.8	1.9	2.0	1.3
Contract research and development	7.6	5.1	18.8	12.7	10.2	6.9
Revenue from collaborative arrangements	3.2	2.1	5.1	3.4	0.3	0.2
Research and development costs	48.8	32.8	48.1	32.4	34.1	23.0
Net income (loss)	9.5	6.2	(33.3)	(22.5)	(23.8)	(16.1)
Net income (loss) per share	0.14	0.09	(0.54)	(0.37)	(0.45)	(0.30)
Weighted average shares outstanding	66.9		61.5		53.3	
Cash, cash equivalents and investment securities	248.1	165.4	257.3	178.3	78.2	52.7
Total assets	386.0	257.4	321.8	222.9	103.2	69.6
Shareholders' equity	349.5	233.1	288.7	200.0	83.3	56.1
Shares outstanding at end of year	67.7		64.9		54.5	
Employees	352		253		194	

[1] As restated – see Note 2 to the 2000 Consolidated Financial Statements

Certain statements in this Annual Report constitute "forward-looking statements" of QLT within the meaning of the Private Securities Litigation Reform Act of 1995, which involve known and unknown risks, uncertainties and other factors which may cause the actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Forward-looking statements include, but are not limited to, those with respect to: anticipated levels of sales of Visudyne™, including patient and physician demand for Visudyne therapy; anticipated future operating results; reimbursement for Visudyne therapy; the ability and efforts of QLT's strategic partner, Novartis Ophthalmics, to commercialize and market Visudyne; anticipated outcome of pending patent and securities litigation against QLT; QLT's ability to maintain and expand its intellectual property position; the timing and success of planned or existing clinical trials for Visudyne and QLT's product candidates; the anticipated timing of regulatory submissions and regulatory approval for expanded uses of Visudyne and for QLT's product candidates, and the successful development or acquisition of complementary technologies, products or product candidates. These statements are only predictions and actual events or results may differ materially. Factors that could cause such actual events or results expressed or implied by such forward-looking statements include, but are not limited to, the risks, uncertainties and other factors described in QLT's Annual Information Form on Form 10-K and other filings with the U.S. Securities and Exchange Commission.

MEDICAL BREAKTHROUGH

The launch of Visudyne by Novartis Ophthalmics, the eye health unit of Novartis AG and QLT's marketing and development partner for the product, was the largest ophthalmic product launch on record, with sales of $98 million (U.S.) in the first 12 months. By year-end Visudyne had received regulatory approval in 34 countries and counting. It had cleared reimbursement hurdles at the U.S. Health Care Financing Administration and received a national coverage policy in the country where two-thirds of Visudyne sales were generated. It was heralded by the likes of *Time*, *Popular Science* and *Business Week* as one of the top medical products of 2000. And it won the confidence of an overwhelming majority of retinal specialists because they trust Visudyne's effectiveness in treating predominantly classic age-related macular degeneration (AMD). AMD is the leading cause of blindness among men and women over the age of 50.

But the truly remarkable thing is that we've only just begun to tap into Visudyne's potential to treat a much wider range of ocular diseases.

First of all, the number of AMD patients eligible for Visudyne therapy is about to grow – some observers say it could even double. The latest research shows that an entirely new AMD patient population, those with the 'occult' form of the condition who were not among the patient group covered by the initial approved indication for 'predominantly classic' AMD, experienced reduced vision loss when treated with Visudyne. Furthermore, as we accumulate experience with the treatment, studies are showing that the reduction in vision loss in patients with predominantly classic AMD is being maintained over an increasingly longer duration, confirming Visudyne's long-term benefits.

Beyond AMD, Visudyne shows great promise in treating a number of other ocular diseases. Studies have clearly demonstrated the therapy's effectiveness in treating pathologic myopia and ocular histoplasmosis syndrome. In fact, the U.S. Food and Drug Administration issued an approvable letter in February 2001, to expand the use of Visudyne to treat these conditions, with the expectation that approval will be granted by the agency sometime later this year. In December 2000, Visudyne also won a positive recommendation from the European Medicines Evaluation Agency regarding expanding the indication to include pathologic myopia, moving it a step closer to being available for this additional condition in Europe, where roughly one-quarter of all Visudyne sales are generated.

It is no wonder then, that many believe Visudyne, with its breakthrough hallmarks and broad indication potential, could well become one of the most successful biotech products ever.

Of course, the story of Visudyne's success is really the story of QLT's growth and success over the years. Today's QLT was founded upon preeminent scientific expertise, attracting world-class scientists who forged a new and innovative field of medicine called photodynamic therapy (PDT) and developed the first approved PDT drug in the world, PHOTOFRIN®. The invaluable experience gained during those early, formative years – the rigorous laboratory research methods, the scrupulous design and conduct of clinical trials, the thorough understanding of regulatory approval complexities – created a vast reservoir of corporate expertise in key competencies that are, in fact, critical success factors for any company in the biotech sector.

And while the rights to PHOTOFRIN were transferred to Axcan Pharma last year, the passing of the baton with the successful development of Visudyne unequivocally demonstrated our mastery of these competencies in a higher stakes arena.

Along the way we have learned to support and augment these strengths as we've grown.

Our new headquarters and research facilities, completed last year, have created a more dynamic, more efficient environment that fosters innovation and flexibility among the more than 350 employees who now work there. Broad organizational infrastructure programs like Enterprise Resource Planning and Research and Development (R&D) Project Management have been implemented to help us become more effective in our pursuits of science and health.

A secondary manufacturing site is being readied to add to Visudyne's supply chain to better guarantee product availability worldwide.

STAYING OUT IN FRONT

2000 was a roller-coaster of a year for stock markets and, for the biotech sector the ride was particularly turbulent.

Riding the momentum of 1999, the sector hit an all-time high in early March but saw market capitalization fall dramatically not long after as U.S. President Clinton and U.K. Prime Minister Blair speculated about public access to the human genome data. With the announcement of the human genome project's completion of gene sequencing around mid-year, biotechs rebounded until broader concerns surrounding economic growth and a recession sent all markets on a downward slide. Despite these fluctuations, QLT remains in an enviable position, thanks to Visudyne.

Of the 490 publicly traded biotech companies around the world today, only 14 – less than 3% – are profitable, and QLT is one of them. We are constantly looking for opportunities to grow and now Visudyne has provided the means and liquidity with which we can look even further and more aggressively than we ever imagined.

We intend to take every advantage of this tremendous opportunity to find the next blockbuster, whether that means developing the next generation of photosensitizers in-house or looking to in-license or acquire a product, technology or business outside the field of PDT. We have built an organization that has proven it can successfully take a product from the bench to the market – not once but twice. And we are eager to do it again.

Why?

Because this is what drives us, what we were built for. Because the market expects it of us and patients around the world count on us for it. And because we expect it of ourselves.

Because our business is science, our product is life.

Julia Levy Ph.D., D.Sc., FRSC
President and Chief Executive Officer
March 2001

ABOUT QLT

QLT Inc. is a world leader in photodynamic therapy, a field of medicine utilizing light-activated drugs in the treatment of disease.

QLT has developed and commercialized breakthrough treatments that use this technology for applications in ophthalmology and oncology and is exploring its potential for treating cardiovascular and immune disorders.

BUSINESS AND TECHNOLOGY REVIEW

OPHTHALMOLOGY

On April 12, 2000, the U.S. Food and Drug Administration (FDA) approved Visudyne™ (verteporfin for injection) therapy for the treatment of predominantly classic subfoveal choroidal neovascularization (CNV) caused by age-related macular degeneration (AMD), the leading cause of blindness in men and women over the age of 50. This significant milestone, along with the Swiss approval in December of 1999, was followed by approval in 32 additional countries throughout the world and set the stage for Visudyne's outstanding first year.

Many factors contributed to Visudyne's success, not the least of which were the tremendous sales and marketing efforts by our partner Novartis Ophthalmics, the eye health unit of Novartis AG. In the 12 months ending December 2000, Visudyne generated sales of $98 million (U.S.), making it the most successful ophthalmic product launch in history and on track to place among the top five biotech products ever as measured by the first 12 months of sales. Two-thirds (66%) of sales occurred in the U.S., one-quarter (26%) in Europe and the remainder (8%) throughout the rest of the world.

A critical challenge with many new chemical entities, once approved, is securing reimbursement. In the U.S., Visudyne's largest market, the treatment was awarded a national coverage policy by the Health Care Financing Administration (HCFA) in November. In Europe, reimbursement continues to be negotiated on a country-by-country basis and looks hopeful for 2001.

Visudyne therapy requires a specific, non-thermal diode laser to be shone through a slit lamp into a patient's eye; as such, access to lasers is crucial. By the end of 2000, approximately 1,300 of these lasers had been placed worldwide, more than double the goal for the year. QLT and Novartis ensure the availability of light sources through alliances established with leading laser companies Coherent, Inc. and Carl Zeiss, Inc.

By year-end, 1,750 physicians, most of them retinal specialists, had received training in administering Visudyne therapy, exceeding all targets set for the year. Based on follow-up market research in the U.S., 86% of retinal specialists polled said that they were current users of Visudyne and the vast majority of respondents (84%) indicated that the treatment meets or exceeds their expectations in terms of efficacy. In fact, physicians were so satisfied with Visudyne that they expect to increase the number of patients treated with the therapy by 24% during the first quarter of 2001. Spreading the word about Visudyne among the medical community was key to achieving these results. Visudyne ads appeared in all ophthalmic journals and the product was presented at major conferences, including the Association for Research in Vision and Ophthalmology in May 2000 and the American Academy of Ophthalmology meeting in October 2000, which attracted over 20,000 ophthalmologists.

Despite the prevalence of AMD, the vast majority of people over the age of 50 are unaware of the disease and among those who are aware, there is little understanding about treatment options. To change this, Novartis Ophthalmics has embarked on a comprehensive program aimed at emphasizing awareness and early diagnosis of AMD among consumers. Components of the program include:

- Visudyne advertising in major newspaper markets and magazines such as *Time*, *Reader's Digest*, and *Prevention*, along with other seniors' publications;
- support for the AMD Alliance International, whose mandate is to raise global awareness about AMD and whose members include leading international vision and seniors' organizations such as the National Institute for the Blind and the International Federation on Ageing;
- the Visudyne web site and hotline for consumers, both of which have handled tens of thousands of hits and calls respectively since being set up in the months following FDA approval;
- and, the Eye-Q Challenge, a mobile marketing campaign that travels to health shows and fairs around the country to educate consumers about AMD.

Worldwide AMD incidence

200,000 Europe
200,000 North America
100,000 rest of world

Worldwide there are 500,000 new cases of wet AMD each year.

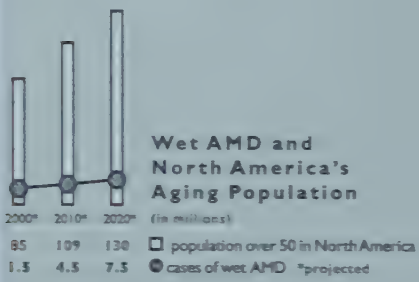
The public awareness campaign was further reinforced when Visudyne was listed as one of the top new products of the year by *Popular Science* and *Business Week* and hailed by *Time* as one of the most promising pharmaceutical breakthroughs of 2000.

Visudyne's success stems from its unique impact on the debilitating disease it treats. Wet AMD is the most severe form of macular degeneration and is caused by CNV, a growth of abnormal blood vessels across the macula, or central part of the retina. These blood vessels leak fluid and create scar tissue that attacks central vision, resulting in the deterioration of sight within as little as two months to three years. Millions of people around the world suffer from wet AMD as roughly 500,000 new cases develop each year – 40% of them in North America – and as the population ages, these numbers are expected to grow. The wet form of AMD represents approximately 15% of all AMD cases but accounts for about 90% of the severe vision loss associated with the disease.

Treatment methods prior to Visudyne met with limited success; the most common of them, a thermal laser therapy, actually put the patient at risk for retinal scarring and permanently impaired vision. Safe and effective, Visudyne therapy involves the combination of a drug and light to treat AMD. The drug is administered intravenously whereupon it travels through the bloodstream and rapidly accumulates selectively in the walls of the abnormal blood vessels in the retina. A low-intensity laser is then shone into the eye, activating the drug to close the leaky vessels. The entire procedure is usually performed as an outpatient treatment and patients may begin to exhibit positive effects following the first treatment. Patients return for check-ups every three months and repeat the therapy if leaky blood vessels persist.

Results from the Phase III clinical trials, known as the TAP (Treatment of AMD with Photodynamic therapy) Investigation, released in March 2000, just before U.S. FDA approval, showed that the benefit and safety of Visudyne in treating predominantly classic AMD was fully maintained over a two-year period. The results, which were presented at the annual meeting of the Association of Research in Vision and Ophthalmology in Florida in May 2000, showed that after 24 months, 59% of patients treated with Visudyne therapy lost less than three lines of vision, or 15 letters, on a standard eye chart compared with 31% of patients given a placebo. Furthermore, the findings showed that Visudyne patients exhibited slower lesion growth, reduced leakage and stable contrast sensitivity, and that 13% of them, in fact, continued to experience an improvement in vision.

The two-year TAP study results also confirmed Visudyne's favorable safety profile. Injection-site reactions and visual disturbances were the most frequently reported adverse events while photosensitivity reactions occurred less than 1% of the time. Patients in the TAP Investigation will continue to be followed until 2002 in order to collect longer-term data.



Over the next 20 years as the population in North America ages, the number of wet AMD cases is estimated to grow five fold.

2001 promises to be an equally exciting year for Visudyne.

Already approved to treat AMD patients with predominantly classic subfoveal CNV, clinical research has also shown it to be effective in treating an entirely new patient population, those with "occult without classic" CNV. The CNV responsible for wet AMD appears as two types of lesions: classic or occult. Classic CNV progresses more rapidly than occult, is more aggressive, and easier to diagnose because the vessels are well-defined and therefore easier to detect. As well, loss of sight occurs more rapidly with classic CNV. Occult CNV is less predictable and because the leakage is less obvious, more difficult to diagnose. While it is common for patients to develop both types of lesions, roughly half of all patients with occult CNV will develop classic CNV within a year.

In a multi-center Phase IIIb randomized placebo-controlled study known as the VIP (Verteporfin In Photodynamic therapy) trial, Visudyne was shown to reduce the risk of vision loss in patients with occult without classic CNV. The results, based on 339 AMD patients mostly with occult without classic CNV (a small number did have a classic component) treated at 28 centers throughout North America and Europe over 24 months, showed that 46% of patients treated with Visudyne therapy lost less than three lines of vision (15 letters) on a standard eye chart compared to 33% of patients treated with a placebo.

And when it came to severe vision loss, 70% of Visudyne patients lost less than six lines (30 letters) compared to 53% of placebo patients. This new patient population together with the patients for whom the treatment is already approved represents approximately two-thirds of all patients with wet AMD. Furthermore, these results are significant since no proven treatment exists for the occult form of the condition. Discussions are in progress with regulatory agencies to determine the quickest time to market for this expansion of the Visudyne franchise.

Additional clinical trials have also been initiated to investigate alternative treatment protocols to enhance the efficacy of Visudyne – for example, administering retreatments earlier than the recommended every three months.

Finally, patient enrollment in a Japanese clinical trial to investigate Visudyne therapy in AMD was completed on schedule at the end of 2000 with a total of 64 patients recruited at five centers. The 12-month follow-up will be completed at the end of 2001.

Beyond AMD, clinical findings have shown Visudyne to be effective in treating CNV due to other ocular conditions such as pathologic myopia and ocular histoplasmosis syndrome (OHS).

CNV due to pathologic myopia is caused by abnormal blood vessels that grow under the center of the retina as a result of an abnormal elongation of the back of the eye associated with severe near-sightedness or myopia. It generally occurs among people over 30 years of age and can result in a progressive loss of vision for which there are no approved treatments. The worldwide incidence of CNV due to pathologic myopia is estimated to be 50,000 new cases per year excluding Asia where the incidence may be even greater due to a higher prevalence of pathologic myopia. OHS is caused by a fungal infection of the retina and can lead to severe, irreversible vision loss. It is a primary cause of blindness in adults who have lived in areas where the soil mold *Histoplasma capsulatum* is found. OHS is caused by inhaling this fungus, which generally remains in a dormant stage but tends to become more aggressive when a person's immune system is compromised.

In early February 2001, in response to these findings, the U.S. FDA issued an approvable letter for the expanded use of Visudyne. The letter, which typically indicates that the agency intends to approve the application, requested further clinical information to fulfill the necessary criteria to obtain a broader supplemental indication for Visudyne therapy. Final approval is expected by mid-year 2001.

The company has also received a positive recommendation from the European Medicines Evaluation Agency to expand the indications which Visudyne is used to treat to include pathologic myopia.

Findings from a Phase II clinical trial investigating the safety and efficacy of photodynamic therapy (PDT) with verteporfin in treating patients with multiple non-melanoma skin cancer lesions showed positive results. Fifty-four patients, representing a collective total of 421 tumors, took part in the study and were randomized to exposure to one of three different light doses. The group of patients exposed to the highest light dose had the best response rate with 98% of the assessed tumors showing a complete clinical response six months after initial treatment – 92 of the 94 tumors biopsied from this group were confirmed to be pathologically cancer-free.

Approximately one million new cases of non-melanoma skin cancer are diagnosed in North America each year, from which an estimated 50,000 patients will develop multiple non-melanoma skin cancers. In addition to having a very high tumor-response rate, PDT is less invasive than currently available treatments and may result in a better cosmetic outcome.

QLT is also investigating the use of a photosensitizer in conjunction with an immune compound, licensed from Corixa Corporation, to create a personalized cancer vaccine. A proof-of-concept study investigating this technique, called photodynamic vaccination (PDV), in the treatment of patients with malignant melanoma is currently underway with results expected in the latter half of 2001.

QLT completed an open-label randomized Phase II clinical study at three centers to evaluate verteporfin in 48 patients with moderate to severe psoriasis. A randomized placebo-controlled Phase I clinical study of 17 patients with rheumatoid arthritis was also completed. In both studies, analyses showed no systemic safety issues but because of limited efficacy, the company is currently not pursuing further development in these two conditions with the current treatment regimens.

CARDIOVASCULAR

Of the more than one million North Americans who undergo angioplasty each year roughly half of them will experience arterial restenosis, a reclosing of the blood vessels, within six months of the procedure. QLT has teamed up with vascular disease management specialist Medtronic AVE Inc. to develop a therapeutic system and procedure to reduce the occurrence of this potentially life-threatening condition. Pre-clinical studies are currently underway and expected to be completed in 2001.

OPERATIONS

At the QLT annual general meeting, held in Vancouver in May 2000, shareholders voted on several resolutions. Authorized share capital was increased from 100,000,000 to 500,000,000 common shares to allow for stock splits, stock dividends and other financing and acquisition needs. A new incentive stock option plan was approved whereby the number of options issued or outstanding at any given time cannot exceed 15% of total shares issued and outstanding. Shareholders also voted to change the company's name from QLT PhotoTherapeutics Inc. to QLT Inc. to reflect the company's emerging stature as a large, diversified biopharmaceutical enterprise.

In other operational developments, in June 2000, QLT sold the rights to PHOTOFRIN®, to Axcan Pharma in order to focus resources on the successful launch and expansion of Visudyne. The transaction was worth up to $60 million (CDN) in cash, preferred and common stock as well as future milestone payments.

Several changes in senior management also occurred during 2000. Mr. Alain Curaudeau was appointed Vice President, Project Planning and Management in July, responsible for implementing QLT's project management system. Mr. Curaudeau has more than 15 years of global experience in pharmaceutical R&D. In September, Ms. Janice Stasiuk joined QLT as Vice President, Finance and Information Systems. Ms. Stasiuk brings with her extensive senior-level financial experience along with acquisition expertise. QLT's senior management team was further strengthened with several internal promotions including: Celia Courchene to Vice President, Business Development and Legal Affairs; Iman Karmadi to Vice President, Manufacturing; Linda Lupini to Vice President, Human Resources and Administration; and Elayne Wandler to Vice President, Corporate Communications. Mr. Kenneth H. Galbraith, stepped down as Executive Vice President and Chief Financial Officer on October 31, 2000.

Phase II of QLT's new headquarters and research facilities in Vancouver, Canada was completed in November 2000, and full transition of all staff from the old facilities to the new offices was completed by year-end. More than 350 employees now work in the 156,000 square-foot, state-of-the-art facility, of which over 40,000 square feet comprise fully equipped research and testing laboratories. As well, a secondary manufacturing site for Visudyne is being readied for addition to the product's supply chain.

In early 2000, QLT strengthened its infrastructure to help manage the tremendous growth and increased work flows that come with it. In January, the company commenced the implementation of a new project management system to optimize the use of staff and resources, to manage its product pipeline, to accelerate the delivery of new products to market, and to manage cross-functional teams in an environment of pharmaceutical research and development. In March, the Enterprise Resource Planning (ERP) project was initiated to help QLT make the commercial transition to a higher growth entity by integrating new business processes, computer systems and related organizational changes into the company, all designed to help QLT become more efficient. Both the project management and ERP systems will provide organizational support to help QLT manage growth and achieve its goals.

In August 2000, QLT announced a long-term commitment to support Canadian Guide Dogs for the Blind with a pledge of $325,000 over five years towards the raising and breeding of guide dogs that will subsequently be assigned to visually impaired users. The partnership is a natural fit for the organizations as both are committed to improving the quality of life for the visually impaired across the country.

**ABOUT
PHOTODYNAMIC THERAPY**

Photodynamic therapy (PDT) uses light-activated drugs called photosensitizers to treat a wide range of diseases characterized by rapidly growing tissue, including the formation of abnormal blood vessels, such as cancer and age-related macular degeneration (AMD).

Treatment with PDT consists of a two-step process that starts with administration of the drug, or photosensitizer, by intravenous injection. Once in the bloodstream, the drug attaches itself to low density lipoproteins already circulating. Cells undergoing rapid growth require an above-average supply of lipoproteins and therefore the drug reaches these types of cells more quickly and in higher concentrations. When the necessary level of concentration is attained, the second step is to activate the drug with a specific dose of light of a particular wavelength. This causes the conversion of normal oxygen found in tissue to a highly energized form called singlet oxygen, which, in turn, disrupts normal cellular functions. Neither the drug nor the light exert any effect until combined.

What makes PDT effective and safe is its selectivity. Because the light is shone directly at the cells in the targeted tissue where the drug accumulates preferentially, damage to the surrounding tissue is limited. The entire procedure can be performed in a physician's office or on an outpatient basis.

The type of light source used in PDT varies according to the condition treated. In ophthalmology a diode laser light is shone through a slit lamp into a patient's eye; for certain immune conditions, the patient stands in a whole-body light box containing fluorescent lights of an appropriate wavelength; and for cancer and other internal diseases, fiber optics are used to deliver light to the internal cavities like the lung and esophagus while light-emitting diodes (LED) are used for skin cancer. In all cases only non-thermal (non-burning) light sources are used and QLT ensures the availability of light sources and delivery systems by partnering with leading medical device companies to co-develop and promote PDT-dedicated lights and related devices.

Administration of Visudyne therapy

Visudyne therapy is easy to administer and can be done in the physician's office.

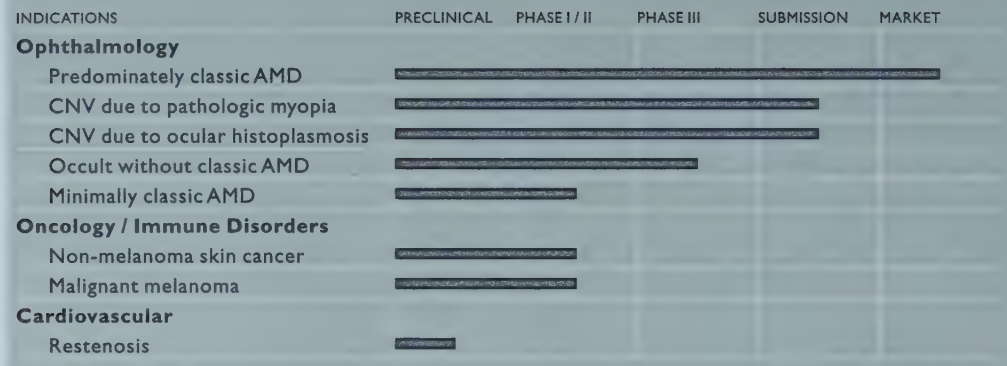
I) Visudyne is injected into the patient's arm over a period of ten minutes.

II) In the bloodstream, Visudyne attaches to lipoproteins which selectively carry the drug to abnormal vessels in the eye.

III) Five minutes after the infusion, Visudyne is activated by shining a red, non-thermal laser light into the patient's eye for 83 seconds.

IV) Once Visudyne is activated, the abnormal blood vessel cells are destroyed by the release of singlet oxygen, resulting in closure of the abnormal vessels and cessation of leakage.

DEVELOPMENT PIPELINE



"QLT's driving motivation is to develop innovative compounds to treat unmet medical needs. We succeeded with Visudyne, which treats age-related macular degeneration, a condition for which there was no pre-existing satisfactory treatment. With a number of significant unsatisfied medical conditions in the areas of immune disorders and oncology, we plan to expand our work in these areas either through in-house development or through in-licensing or the acquisition of existing compounds. At the end of the day, if we can make a difference in the lives of patients, then we will have succeeded."

Dr. Julia Levy
President & CEO

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the Company's 2000 consolidated financial statements and notes therein, which are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). These principles differ in certain material respects from generally accepted accounting principles in the U.S. (U.S. GAAP). The differences as they affect the consolidated financial statements of the Company are described in Note 17 to the Company's 2000 consolidated financial statements. All amounts following are expressed in Canadian dollars unless otherwise indicated.

OVERVIEW

Since its inception in 1981, the Company has been engaged primarily in the research and development (R&D) of proprietary pharmaceutical products. In 1995 the Company launched its first product, PHOTOFRIN®, and began to generate royalty revenues from commercial sales of PHOTOFRIN. In April 2000, the Company received approval from the U.S. FDA for its newest product, Visudyne™, and in July 2000, the European Commission granted marketing authorization for Visudyne in all countries of the European Union. Visudyne is being marketed worldwide by Novartis Ophthalmics AG (Novartis Ophthalmics) under a marketing, distribution and development agreement in which the Company and Novartis Ophthalmics share equally the profits realized on revenue from product sales after deductions for marketing and manufacturing costs. The Company achieved its first year of profitability in 2000. Future profitability will depend upon the commercial success of Visudyne in major markets worldwide and the achievement of product development objectives. As of December 31, 2000, the Company had an accumulated deficit of $176.3 million.

During the fourth quarter of 2000, the Company changed its accounting policy for recognizing milestone revenue on collaborative arrangements to be consistent with U.S. GAAP as clarified by Staff Accounting Bulletin 101 (SAB 101) "Revenue Recognition in Financial Statements," which was released by the Securities and Exchange Commission (SEC) on December 3, 1999. Accordingly, the Company now records milestone revenue, even if non-refundable, as deferred revenue and recognizes revenue on a systematic basis over the period that the related products or services are delivered or obligations as defined in the agreement are performed, as described in Note 1 to the Company's consolidated financial statements. Previously, the Company recognized milestone revenue as earned in accordance with the terms of the related agreement which generally was the period the milestone payment was received. This change has been applied retroactively and all prior periods reported herein have been adjusted accordingly. (See Note 2 to the Company's 2000 consolidated financial statements)

RESULTS OF OPERATIONS

For the year ended December 31, 2000, the Company recorded a net profit of $9.5 million or $0.14 per common share compared with a net loss of $33.3 million or $(0.54) per common share for the year ended December 31, 1999. The results of operations for the year ended December 31, 2000 were generally in line with management's expectations, except as described below.

REVENUES

REVENUE FROM VISUDYNE

On February 6, 1995, the Company signed an agreement with Novartis Ophthalmics to pursue worldwide joint development and commercialization of photodynamic therapy products. Under the terms of that agreement, the Company is responsible for Visudyne manufacturing and product supply and Novartis Ophthalmics is responsible for sales, marketing and distribution. Global revenues realized from product sales of Visudyne by Novartis Ophthalmics for the treatment of age-related macular degeneration (AMD) will be shared on an equal basis by the Company and Novartis Ophthalmics after deductions for marketing costs and manufacturing costs (including third-party royalties). The Company and Novartis Ophthalmics initiated a global phased product launch commencing in the second quarter of 2000 with approval in the United States. As a result, effective April 1, 2000, the Company commenced recording its share of Visudyne revenue as a revenue item in the statement of operations.

The Company's revenue from the sales of Visudyne was determined as follows:

(In thousands of Canadian dollars) From April 1, 2000 to December 31,	2000
Visudyne product sales by Novartis Ophthalmics	$ 141,666
Less: Manufacturing and other costs	(11,644)
Less: Sales, marketing and distribution costs	(81,107)
Net operating income from Visudyne sales	$ 48,915
The Company's 50% share	$ 24,458
Add: Manufacturing and other reimbursements	12,966
Total revenue recognized by the Company from Visudyne sales	$ 37,424

For the fiscal year 2000, approximately 66% of total Visudyne sales were in the United States with Europe and other markets responsible for the remaining 34%.

ROYALTIES ON PRODUCT SALES – PHOTOFRIN

On June 8, 2000, the Company finalized the sale of the worldwide rights to PHOTOFRIN to Axcan Pharma Inc. (Axcan). Under the terms of the deal, the Company transferred to Axcan the worldwide development, manufacturing and marketing rights to PHOTOFRIN in exchange for an initial cash payment of $2.5 million, a $4 million deferred payment, 1,283,333 common shares of Axcan and $13.5 million in preferred shares of Axcan which are redeemable within 12 months in cash or additional common shares of Axcan. In addition, the Company is entitled to future milestone payments of up to $20 million, payable in cash or preferred shares, based on future events. Concurrent with the sale to Axcan, the Company terminated its agreement with Ligand Pharmaceuticals Inc., the Company's marketing and distribution partner in Canada and agreed to assign its Japanese royalty rights under its agreement with Wyeth-Ayerst Japan, Ltd. to Axcan. The Company also re-acquired the exclusive PHOTOFRIN marketing and distribution rights in the U.S. and Caribbean from Sanofi-Synthelabo Inc. in exchange for a portion of the consideration received by the Company from Axcan at the closing date and rights to receive a portion of the future consideration payable to the Company by Axcan. The Company recorded earned royalties on sales of PHOTOFRIN by these distribution partners up to the closing of the transaction on June 8, 2000. At closing, Axcan assumed responsibility for the marketing efforts for PHOTOFRIN and future costs and obligations relating to the PHOTOFRIN business. As a result, the Company no longer receives royalty payments from PHOTOFRIN sales.

CONTRACT RESEARCH AND DEVELOPMENT REVENUE

The Company receives non-refundable R&D funding from certain strategic partners which is recorded as contract R&D revenue. For the year ended December 31, 2000, contract R&D revenue decreased by 59% compared to fiscal 1999 due mainly to the termination of the agreement with Speywood Pharmaceuticals Limited, a part of the Beaufour Ipsen Group, effective December 31, 1999, and the higher level of Visudyne clinical trials in 1999. Current contract R&D revenue is related only to the Company's collaboration with Novartis Ophthalmics.

REVENUE FROM COLLABORATIVE ARRANGEMENTS

During the third quarter of 2000, the Company recorded net milestone revenue of $2.5 million from Axcan resulting from the receipt of U.S. FDA approval to market the Diomed 630 nm diode laser co-developed by the Company and Diomed for use in conjunction with PHOTOFRIN.

The extent and timing of additional licensing fees and milestone payments, if any, beyond 2000 is dependent upon the terms of current and any additional future agreements, including the achievement of development milestones defined therein.

INVESTMENT AND OTHER INCOME

Investment and other income for the year ended December 31, 2000, increased by 147% compared to 1999. Significantly higher average cash balances, primarily the result of the public offering (net proceeds of $188 million) completed during the second quarter of 1999, and favorable foreign currency gains were the primary reasons. The Company expects that investment and other income will continue to fluctuate in relation to cash balances, interest yields and foreign exchange rates. See – "Liquidity and Capital Resources."

COSTS AND EXPENSES

Total costs and expenses, excluding amortization, for the year ended December 31, 2000, increased by 13% compared to fiscal 1999. Total costs and expenses, excluding amortization, for the year ended December 31, 1999, increased by 69% compared to fiscal 1998.

MANUFACTURING COSTS

Under the terms of the Company's agreement with Novartis Ophthalmics on the joint development and commercialization of photodynamic therapy products, the Company is responsible for Visudyne manufacturing and product supply, and Novartis Ophthalmics is responsible for sales, marketing and distribution. The Company's manufacturing costs comprise direct and indirect costs incurred in the production of Visudyne and related third-party royalties, and are recognized in the period of the related product sale by Novartis Ophthalmics to third-parties.

RESEARCH AND DEVELOPMENT COSTS

The Company expects to continue incurring substantial R&D expenses in the near future due to additional clinical studies of Visudyne, validation costs for the secondary manufacturing site for Visudyne, the continuation and expansion of other R&D programs, potential technology in-licensing and regulatory related expenses, preclinical and clinical testing of the Company's various product candidates and products under development, and production scale-up and manufacturing of future products to be used in clinical trials.

Under the terms of the February 6, 1995, agreement with Novartis Ophthalmics to pursue worldwide joint development and commercialization of photodynamic therapy products, including Visudyne and Zinc Phthalocyanine (ZnPc), as potential treatments for certain eye diseases, the Company is responsible for 40% to 50% of R&D costs for Visudyne and Novartis Ophthalmics is responsible for the remaining 50% to 60%. The Company and Novartis Ophthalmics will share equally the R&D costs for ZnPc. The Company and Novartis Ophthalmics reconcile joint R&D costs, on a quarterly basis, and when it results in funding payments to the Company, the Company records such non-refundable amounts as contract R&D revenue. The Company and Novartis Ophthalmics do not have an active development program for ZnPc for ophthalmology.

April 17, 2000, the Company and Novartis Ophthalmics announced their intention to expand the existing strategic alliance to other compounds to treat any ocular diseases characterized by neovascularization. Development costs and resulting profits would be shared equally by the Company and Novartis Ophthalmics.

On April 30, 1998, the Company announced the formation of a strategic alliance with C.R. Bard Inc. (Bard) to develop a therapeutic system and procedure for the reduction of arterial restenosis utilizing localized delivery of photodynamic therapy administered during angioplasty procedures. On September 30, 1998, Bard finalized an agreement to sell certain of its businesses, products and technologies consisting of its coronary catheter laboratory business to Arterial Vascular Engineering, Inc. (AVE). Subsequently, AVE was purchased by Medtronic, Inc. and currently operates as a division thereof – Medtronic AVE, Inc. Under the terms of the Company's agreement with Bard, Bard had the option to assign its rights and obligations under the agreement in connection with the sale of all or a substantial portion of Bard's cardiology related assets. Bard completed an assignment of its rights and obligations to Medtronic AVE during 1999. Under terms of the assigned agreement, Medtronic AVE will fund product development and clinical research and will market the final products on an exclusive worldwide basis. The Company is entitled to receive royalty payments from Medtronic AVE and has retained an option to co-fund R&D at a later date in exchange for an increased share of sales revenue. This agreement has not had a significant effect on R&D costs since its inception. Medtronic AVE continues preclinical work associated with the project.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Total selling, general and administrative expenses for the year ended December 31, 2000, were 41% higher compared to 1999. Contributing factors were higher personnel and operational costs associated with the continued expansion of the Company's infrastructure and facilities to support and accommodate continued and anticipated significant growth, the build-up of commercial operations and manufacturing activities, and higher personnel recruitment costs.

The Company is a party to a civil suit filed in the U.S. by a research institution relating to an ongoing intellectual property dispute. If the dispute is not settled, the Company estimates that it could incur future net legal costs of U.S. $1.65 million through a full trial expected to commence in 2001.

MARKET AND BUSINESS DEVELOPMENT COSTS

For the first quarter of 2000, market and business development costs represented the Company's equal share of initial costs associated with planning and initiation of an Expanded Access (EA) Program for Visudyne therapy, net of EA pre-commercial or commercial revenues realized, and marketing and pre-launch costs to date. For the first quarter of 2000, the gross costs of $16.3 million for market and business development with Novartis Ophthalmics was reduced by $5.7 million in cost recovery received from the EA program outside of North America. The Company's 50% share of the net cost of $10.6 million amounted to $5.3 million for the first quarter of 2000. The EA Program commenced in early September 1999, and will continue in selected countries until marketing clearance for Visudyne is obtained from the relevant regulatory authorities.

Effective with the second quarter of 2000, the Company commenced recording its share of revenues from Visudyne as a revenue item on the statement of operations. See "Revenue from Visudyne."

AMORTIZATION EXPENSE

Amortization expense relates mainly to the amortization of property and equipment. For the year ended December 31, 2000, amortization expense was 136% higher than the amount recorded in 1999 due to the amortization impact of the completion of Phase I of the new research and office facility in January 2000, and the enterprise resource planning system installed in October 2000. The Company expects that amortization expense for 2001 will be significantly higher than fiscal 2000 due to the amortization of Phase II of the new research and office facility completed in November 2000.

EFFECT OF INFLATION

The Company does not believe that inflation has a significant effect on its business.

LIQUIDITY AND CAPITAL RESOURCES

Since inception the Company has financed product development, operations and capital expenditures principally from public and private sales of equity securities, licensing and collaborative funding arrangements with strategic partners and interest income. With the commercial launch of Visudyne, the Company began to receive an equal share of profits after deduction of marketing costs, manufacturing costs and third-party royalties, from its profit-sharing arrangement with Novartis Ophthalmics.

At December 31, 2000, the Company had $248.1 million of available cash resources, comprised of cash, cash equivalents and short-term investment securities, all of which were invested in liquid, investment-grade securities. In the aggregate, cash, cash equivalents and short-term investment securities decreased by approximately $9.3 million during the year ended December 31, 2000. The decrease resulted from the net effect of the Company's operating loss before amortization ($28.1 million), capital expenditures ($27.6 million), change in working capital ($38.6 million) and a decrease in deferred revenue ($4.3 million) offset by the proceeds received from a long-term debt less principal repayments to date ($13.6 million), the exercise of stock options by officers, employees and directors ($51.4 million), and net investment and other income ($24.3 million).

The Company is exposed to market risk related to changes in interest and foreign currency exchange rates, each of which could adversely affect the value of the Company's current assets and liabilities. At December 31, 2000, the Company had an investment portfolio consisting of fixed interest rate securities with an average remaining maturity of approximately 29 days. If market interest rates were to increase immediately and uniformly by 10% from levels at December 31, 2000, the fair value of the portfolio would decline by an immaterial amount. The Company does not believe that its results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to its investment portfolio, given the Company's current ability to hold its fixed income investments until maturity. At December 31, 2000, the Company did not have any forward currency contracts or other financial derivatives outstanding to hedge foreign exchange risk, and therefore is subject to foreign currency transaction and translation gains and losses. With a significant portion of its current cash resources denominated in U.S. dollars, a sudden or significant change in foreign exchange rates could have a material effect on the Company's future operating results or cash flows. If the Canadian dollar were to increase in value by 5% against the U.S. dollar, an unrealized foreign currency translation loss of approximately $5.5 million would occur. The Company purchases goods and services in both Canadian and U.S. dollars and earns a significant portion of its revenues in U.S. dollars. Foreign exchange risk is managed primarily by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency.

In September 1998, the Company completed an acquisition of land located in Vancouver, B.C. for the site of its new multi-phase research and office facility. Construction of Phase I commenced during the fourth quarter of 1998 and was completed in January 2000. Final total project cost, including land and soft costs, is approximately $24 million. As of December 31, 2000, $13.6 million of funding remains outstanding on the long-term financing facility. The loan carries an interest rate of 6.93% with a 15-year amortization period, resulting in monthly payments of $125,286. The loan will be renegotiated in three years and is secured by a first security interest in Phase I of the new research and office facility.

To accommodate accelerated growth, the Company commenced construction of Phase II of its new facility, approximately one year ahead of the original plan. Completion of construction and occupancy of the Phase II building occurred in November 2000. The total project cost is approximately $13.5 million. The Company entered into a fixed price construction contract for the base building in the amount of $10.4 million, of which the full amount has been paid at December 31, 2000. An additional $1.9 million of change orders to the contract have also been completed. With the completion of both phases of the Company's research and office facility, capital expenditures are expected to return to a lower level in 2001.

The Company's material long-term obligations as of December 31, 2000 comprised the Visudyne supply agreements with contract manufacturers and operating lease commitments for office space and office equipment.

At December 31, 2000, the Company has a valuation allowance equal to its future tax asset due to the Company not having established a pattern of profitable operations for income tax reporting purposes. While the Company does not expect to pay income taxes in 2001, it anticipates that when it does become taxable it will be taxed at statutory Canadian tax rates.

The Company believes that its available cash resources and working capital should be sufficient to satisfy the funding of product development programs, and other operating and capital requirements for the reasonably foreseeable future. Depending on the overall structure of current and future strategic alliances, the Company may have additional capital requirements related to the further development, marketing and distribution of existing or future products.

The Company's working capital and capital requirements will depend upon numerous factors, including: the progress of the Company's preclinical and clinical testing; fluctuating or increasing manufacturing requirements and R&D programs; the timing and cost of obtaining regulatory approvals; the levels of resources that the Company devotes to the development of manufacturing, marketing and support capabilities; technological advances; the status of competitors; the cost of filing, prosecuting and enforcing the Company's patent claims and other intellectual property rights; and the ability of the Company to establish collaborative arrangements with other organizations.

The Company may require additional capital in the future to fund clinical and product development costs for certain photodynamic therapy product applications or other complementary technology opportunities and strategic acquisitions of products, product candidates, technologies or other businesses. Accordingly, the Company may seek funding from a combination of sources, including product licensing, joint development and new collaborative arrangements, additional equity and debt financings or from other sources. No assurance can be given that additional funding will be available or, if available, on terms acceptable to the Company. If adequate capital is not available, the Company's business can be materially and adversely affected.

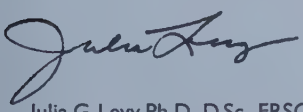
MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles in Canada and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

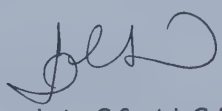
In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements may include amounts that are based on the best estimates and judgements of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility principally through the Audit and Risk Committee. The Audit and Risk Committee consists of three independent directors not involved in the daily operations of the Company. The functions of the Audit and Risk Committee are to review the quarterly and annual consolidated financial statements, review the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters, and recommend the appointment of external auditors. The Audit and Risk Committee meets on a quarterly basis with management and the external auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The external auditors, Deloitte & Touche LLP, conduct an independent examination, in accordance with generally accepted auditing standards in Canada, and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with generally accepted accounting principles in Canada. The external auditors have free and full access to the Audit and Risk Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.



Julia G. Levy Ph.D., D.Sc., FRSC
President and Chief Executive Officer



Janice C. Stasiuk, C.A.
Vice President, Finance and Information Systems
and Acting Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of QLT Inc.

We have audited the consolidated balance sheets of QLT Inc. (formerly QLT PhotoTherapeutics Inc.) as at December 31, 2000 and 1999 and the consolidated statements of operations, cash flows and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the year ended December 31, 2000, we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for each of the years in the two-year period ended December 31, 1999, we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations, its cash flows and changes in its shareholders' equity for each of the years in the three-year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles consistently applied, after giving retroactive effect to the change in accounting policy described in Note 2.

Deloitte & Touche

Deloitte & Touche LLP
Chartered Accountants
Vancouver, Canada
February 7, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31, (In thousands of Canadian Dollars)	2000	1999[1]
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 239,063	$ 96,722
Short-term investment securities	9,000	160,611
Short-term investments in Axcan Pharma Inc (Note 3)	12,369	—
Accounts receivable (Note 4)	20,014	12,977
Inventories (Note 5)	43,094	17,569
Other	1,746	1,426
	325,286	289,305
LONG-TERM INVESTMENTS AND ADVANCES (Note 6)	5,468	—
PROPERTY AND EQUIPMENT (Note 7)	55,246	32,260
INTANGIBLE ASSETS (Note 8)	—	200
	$ 386,000	$ 321,765
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 14,129	$ 20,811
Accrued liabilities (Note 9)	6,305	5,627
Current portion of long-term debt (Note 10)	576	—
Current portion of deferred revenue	2,399	2,027
	23,409	28,465
LONG-TERM DEBT (Note 10)	13,069	—
DEFERRED REVENUE	—	4,648
	36,478	33,113
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11)		
Authorized		
500,000,000 common shares without par value		
5,000,000 first preference shares without par value, issuable in series		
Issued and outstanding		
Common shares	525,871	467,604
December 31, 2000 – 67,700,207 shares		
December 31, 1999 – 64,855,435 shares		
First preference shares, Series D	—	6,850
December 31, 2000 – nil		
December 31, 1999 – 368,069 shares		
ACCUMULATED DEFICIT	(176,349)	(185,802)
	349,522	288,652
	$ 386,000	$ 321,765

COMMITMENTS (Note 16)
CONTINGENCIES (Note 19)

Approved by the Board:

E.D. Scott, Director

J.G. Levy, Director

[1] Restated – see Note 2

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, (In thousands of Canadian Dollars except per share information)	2000	1999[1]	1998[1]
REVENUES			
Revenue from Visudyne (Note 12)	$ 37,424	$ —	$ —
Royalties on product sales – PHOTOFRIN	969	2,818	2,004
Contract research and development (Note 12)	7,657	18,839	10,204
Revenue from collaborative arrangements (Note 12)	3,171	5,024	274
	49,221	26,681	12,482
COSTS AND EXPENSES			
Manufacturing	10,325	—	—
Market and business development costs (Note 12)	5,300	11,244	—
Research and development	48,839	48,139	34,094
Selling, general and administrative	13,255	9,431	6,544
Amortization	3,127	1,325	1,212
	80,846	70,139	41,850
OPERATING LOSS	(31,625)	(43,458)	(29,368)
Gain on sale of PHOTOFRIN and related rights (Note 13)	16,785	—	—
Investment and other income	25,040	10,122	5,571
Interest expense on long-term debt	(747)	—	—
INCOME (LOSS) BEFORE INCOME TAXES	9,453	(33,336)	(23,797)
PROVISION FOR INCOME TAXES (Note 14)	—	—	—
NET INCOME (LOSS)	$ 9,453	$ (33,336)	$ (23,797)
NET INCOME (LOSS) PER COMMON SHARE	$ 0.14	$ (0.54)	$ (0.45)
Weighted average number of common shares outstanding (in thousands)	66,875	61,519	53,274

[1] Restated – see Note 2

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, (In thousands of Canadian Dollars)	2000	1999[1]	1998[1]
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income (loss) for the year	$ 9,453	$ (33,336)	$ (23,797)
Items not involving a current cash flow			
Gain on sale of PHOTOFRIN and related rights	(16,785)	—	—
Amortization	3,127	1,325	1,212
Change in deferred revenue	(4,276)	(5,101)	(386)
Changes in non-cash working capital components			
Accounts receivable and other current assets	(7,135)	(5,906)	(3,937)
Inventories	(25,525)	(10,794)	(3,847)
Accounts payable	(6,682)	15,004	1,417
Accrued liabilities	678	3,324	465
	(47,145)	(35,484)	(28,873)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Short-term investment securities	151,611	(156,641)	22,714
Long-term investment securities	—	—	2,887
Purchase of property and equipment	(27,617)	(24,079)	(6,971)
Purchase of U.S. marketing and distribution rights	(878)	—	—
Sale of PHOTOFRIN and related rights	1,308	—	—
	124,424	(180,720)	18,630
CASH PROVIDED BY FINANCING ACTIVITIES			
Increase in long-term debt	13,645	—	—
Issuance of common shares	51,417	238,651	24,301
	65,062	238,651	24,301
NET INCREASE IN CASH AND CASH EQUIVALENTS	142,341	22,447	14,058
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	96,722	74,275	60,217
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 239,063	$ 96,722	$ 74,275
SUPPLEMENTARY CASH FLOW INFORMATION:			
Interest paid:	$ 747	$ —	$ —

NON-CASH INVESTING AND FINANCING ACTIVITIES:

1 On January 14, 2000, the holder of 368,069 Series D preference shares having a carrying value of $6,850,000 exercised its right to convert them into 736,138 common shares of the Company.

2 On June 8, 2000, the Company sold the worldwide rights to PHOTOFRIN in exchange for $2.5 million in cash, 1,283,333 common shares of Axcan with a value of $11.55 million, preferred shares of Axcan with a value of $12.75 million, a deferred payment with a value of $3.2 million, and future milestone payments of up to $20 million. Transaction costs of $1.2 million have been recorded as a reduction of cash proceeds (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights).

3 Also on June 8, 2000, the Company re-acquired the marketing and distribution rights to PHOTOFRIN in the U.S. and the Caribbean in exchange for $0.9 million in cash, 641,667 shares of Axcan with a value of $5.8 million, Axcan preferred shares with a value of $6.4 million and a right to receive up to $10 million in future milestone payments (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights).

4 On November 8, 2000, the Company finalized the sale of its OPTIGUIDE® Fiber Optics business to Diomed. Under the terms of the sale, the Company transferred to Diomed its rights to commercialize OPTIGUIDE® Fiber Optics in exchange for an initial cash payment of U.S.$25,000, a U.S.$365,000 short-term receivable due within six months after closing, and a U.S.$810,000 long-term receivable due two years after closing payable in cash or an equivalent number of shares at Diomed's option pursuant to a formula (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights).

[1] Restated – see Note 2

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts except share and per share information are expressed in thousands of Canadian Dollars)

BALANCE AT DECEMBER 31, 1997

Exercise of stock options at prices ranging from $4.50 to $10.88 per share

Issuance of common shares at $11.50 per share, net of issuance costs of $1,145

Net loss

BALANCE AT DECEMBER 31, 1998

Exercise of stock options at prices ranging from $4.50 to $48.88 per share

Issuance of common shares to Novartis Ophthalmics AG affiliate at a price of $4.41 per share upon warrant exercise

Issuance of common shares at U.S.$21.81 per share, net of issuance costs of $11,875

Issuance of common shares to Beaufour Ipsen Group affiliate at a price of U.S.$12.64 per share upon warrant exercise

Net loss

BALANCE AT DECEMBER 31, 1999

Exercise of stock options at prices ranging from $4.50 to $108.60 per share

Issuance of common shares to Sanofi-Synthelabo Inc. upon conversion of series D first preference shares

Net income

BALANCE AT DECEMBER 31, 2000

[1] As restated – see Note 2

See accompanying Notes to the consolidated financial statements.

Common Shares		Preference Shares		Accumulated Deficit[1]	Total Shareholders' Equity[1]
Shares	Amount	Shares	Amount		
52,203,524	$ 204,652	368,069	$ 6,850	$ (128,669)	$ 82,833
323,780	2,446	—	—	—	2,446
2,000,000	21,855	—	—	—	21,855
—	—	—	—	(23,797)	(23,797)
54,527,304	228,953	368,069	6,850	(152,466)	83,337
2,607,405	38,671	—	—	—	38,671
1,000,000	4,410	—	—	—	4,410
6,325,000	188,255	—	—	—	188,255
395,726	7,315	—	—	—	7,315
—	—	—	—	(33,336)	(33,336)
64,855,435	467,604	368,069	6,850	(185,802)	288,652
2,108,634	51,417	—	—	—	51,417
736,138	6,850	(368,069)	(6,850)	—	—
—	—	—	—	9,453	9,453
67,700,207	$ 525,871	—	$ —	$ (176,349)	$ 349,522

The Company is a biopharmaceutical corporation engaged in the research, development and commercialization of light-activated drugs used in photodynamic therapy.

1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). These principles differ in certain respects from generally accepted accounting principles in the United States (U.S. GAAP). The differences as they affect the financial statements of the Company are described in Note 17. All amounts are expressed in Canadian Dollars unless otherwise indicated.

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods presented. Actual results may differ from estimates made by management.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at the exchange rate in effect at the time of the transactions. Foreign exchange gains and losses are included in Investment and other income.

SEGMENTED INFORMATION

The Company is considered to operate in one industry segment and currently generates revenue from a single pharmaceutical product, Visudyne. During the second quarter of 2000, the Company sold the worldwide rights to PHOTOFRIN to Axcan Pharma Inc. (Axcan). As a result, the Company is no longer receiving royalty revenue from PHOTOFRIN sales.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENT SECURITIES

Cash equivalents include highly liquid investments with insignificant interest rate risk and original maturities of ninety days or less at the date of purchase. Investments with maturities between ninety days and one year at the date of purchase are considered to be short-term investment securities. Short-term investment securities consist primarily of investment-grade commercial paper (R-1 DBRS rating), auction rate taxable securities, bankers' acceptances and certificates of deposit. All short-term investment securities are valued at cost plus accrued interest that approximates fair value.

INVENTORIES

Raw materials and supplies inventories are valued at the lower of actual cost and replacement cost. Finished goods and work-in-process inventories are valued at the lower of weighted average cost and net realizable value.

LONG-TERM INVESTMENTS

Long-term investments are recorded at cost less provisions for impairment. The Company provides for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and amortized as follows:

	Methods	Rates
Buildings	Declining-balance	4%
Office furnishings, equipment, and operating system	Declining-balance	20%
Computer hardware	Declining-balance	30%

The Company assesses potential impairment of research equipment by determining the extent of continued productive use of the equipment in the conduct of R&D activities. The Company makes reviews for the impairment of other long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimates of non-discounted future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. No material impairment losses have been identified by the Company for the years ended December 31, 2000, 1999 and 1998.

INTANGIBLE ASSETS

Patents, licenses, trademarks and other intangibles are recorded at cost and are amortized on a straight-line basis over their estimated useful lives ranging from five to ten years.

REVENUE RECOGNITION

Revenue from Visudyne consists of the Company's 50% share of pre-tax profits generated from the Company's collaborative manufacturing, marketing and distribution arrangement with Novartis Ophthalmics AG ("Novartis Ophthalmics"), revenue from sale of bulk manufactured Visudyne product to Novartis Ophthalmics and reimbursement from Novartis Ophthalmics of specified manufacturing costs, sales costs and third party royalties. Under the terms of the collaborative arrangement with Novartis Ophthalmics, the Company is responsible for manufacturing and product supply and Novartis Ophthalmics is responsible for and controls sales, marketing and distribution of Visudyne. Pre-tax profits are derived by taking net sales of Visudyne to third parties as recorded by Novartis Ophthalmics less manufacturing, selling, marketing and distribution costs, and third party royalties. Revenue from bulk Visudyne sales to Novartis Ophthalmics is not recognized until the period of the related product sale by Novartis Ophthalmics to third parties.

Royalties on product sales of PHOTOFRIN are recognized as earned under the Company's marketing and distribution agreements which are consistent with the period of the product sale by the distributors.

Revenue from collaborative arrangements typically includes initial technology access or licensing fees and milestone payments based on the achievement of specified events. Initial technology access or licensing fees and milestone or other contingent payments are recognized as revenue on a systematic basis over the period that the related products or services are delivered or obligations as defined in the agreement are performed. In the event that the initial licensing fee or milestone payment relates to an arrangement where the aggregate performance costs and related revenues can be estimated, then revenue is recognized based on the lesser of the non-refundable amount received and the result achieved using percentage of completion accounting. In collaborative arrangements that include multiple follow-on manufacturing, royalty or distribution obligations, which may not be priced at fair value, the up-front and milestone payments are deferred and recognized on a straight-line basis over the term of the collaborative arrangement.

Contract R&D revenues consist of non-refundable R&D funding under collaborative agreements with the Company's various strategic partners. Contract R&D funding generally compensates the Company for discovery, preclinical and clinical expenses related to the collaborative development programs for certain products and product candidates of the Company, and is recognized as revenue at the time R&D activities are performed under the terms of the collaborative agreements. Contract R&D revenues earned in excess of payments received are classified as contract R&D receivables.

MANUFACTURING COSTS

Manufacturing costs consist of manufacturing costs related to the production of bulk Visudyne sold to Novartis Ophthalmics.

STOCK BASED COMPENSATION

The Company has stock based compensation plans which are described in Note 11. Stock options issued to members of the Board of Directors, officers and employees of the Company are not recorded as compensation expense and any consideration received upon the exercise of stock options is recorded as an increase in share capital.

RESEARCH AND DEVELOPMENT

R&D costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. The Company reassesses whether it has met the relevant criteria for deferral and amortization at each reporting date. To date, no R&D costs have been deferred.

INCOME TAXES

Income taxes are reported using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. A valuation allowance is recorded for the portion of the future tax assets for which the realization of any value is subject to significant uncertainty.

NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share or basic earnings (loss) per share, is computed using the weighted average number of common shares outstanding during the year. Fully-diluted income (loss) per common share has not been disclosed as the effect of common shares issuable upon the exercise of outstanding stock options would be anti-dilutive.

RECLASSIFICATION

Certain comparative figures have been reclassified to conform with the current year's presentation.

2
CHANGE IN ACCOUNTING POLICY

During the fourth quarter of 2000, the Company changed its accounting policy for recognizing milestone revenue on collaborative arrangements to be consistent with U.S. GAAP as clarified by Staff Accounting Bulletin 101 (SAB 101) "Revenue Recognition in Financial Statements", which was released by the Securities and Exchange Commission (SEC) on December 3, 1999. Milestone payments are recognized as revenue on a systematic basis over the period that the related products or services are delivered or obligations as defined in the agreement are performed on the basis as described in Note 1. Previously, the Company recognized milestone revenue as earned in accordance with the terms of the related agreement which generally was the period the milestone payment was received. This change did not have a material impact on the financial position or results of operations for 2000. This change has been applied retroactively with the following effect:

(In thousands of Canadian Dollars except per share information)	As originally reported 1999	As originally reported 1998	As restated 1999	As restated 1998
Revenue from collaborative arrangements	$ 4,579	$ 135	$ 5,024	$ 274
Net loss	$ (33,781)	$ (23,936)	$ (33,336)	$ (23,797)
Net loss per common share	$ (0.55)	$ (0.45)	$ (0.54)	$ (0.45)
Deferred revenue	$ 6,004	$ 10,660	$ 6,675	$ 11,776
Accumulated deficit	$ (185,131)	$ (151,350)	$ (185,802)	$ (152,466)

3
SHORT-TERM INVESTMENTS IN AXCAN PHARMA INC.

(In thousands of Canadian Dollars except share information)	Number of Shares	Carrying Amount	Fair Value
Axcan Pharma Inc. – Common shares	641,666	$ 5,775	$ 10,106
– Series 'A' preferred shares	6,750,000	6,594	6,594
		$ 12,369	$ 16,700

The Company's short-term investments in Axcan were acquired as part of the consideration received from the sale of the worldwide rights to PHOTOFRIN to Axcan (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights). The Axcan Common shares are subject to a lock-up agreement expiring September 8, 2001. The Axcan Series 'A' preferred shares are redeemable on June 8, 2001, by Axcan in cash or an equivalent value of common shares at Axcan's option.

4 ACCOUNTS RECEIVABLE

(In thousands of Canadian Dollars)	2000	1999
Visudyne	$ 11,950	$ —
Contract research and development	4,764	8,799
Royalties, trade and other	3,300	4,178
	$ 20,014	$ 12,977

Accounts receivable – Visudyne is due from Novartis Ophthalmics and consists of the Company's 50% share of pre-tax profit on sales of Visudyne, amounts due from sale of bulk Visudyne to Novartis Ophthalmics and reimbursement of specified manufacturing, royalty and other costs.

5 INVENTORIES

(In thousands of Canadian Dollars)	2000	1999
Raw materials and supplies	$ 1,888	$ 971
Work-in-process	29,378	10,045
Finished goods	11,828	6,553
	$ 43,094	$ 17,569

6 LONG-TERM INVESTMENTS AND ADVANCES

(In thousands of Canadian Dollars)	2000	1999
Axcan Pharma Inc.	$ 3,302	$ —
Diomed, Inc.	1,223	—
Other	943	—
	$ 5,468	$ —

The long-term receivable from Axcan represents the present value of a $4 million receivable relating to the sale of PHOTOFRIN (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights) which does not bear interest and is due in cash or an equivalent value of common shares on June 8, 2004. The long-term receivable from Diomed, Inc. ("Diomed") bears interest at 5%, is due on November 8, 2002 and is payable in cash or an equivalent number of shares at Diomed's option pursuant to a formula. Other long-term investments consist principally of long-term employee loans.

7 PROPERTY AND EQUIPMENT

(In thousands of Canadian Dollars)	Cost	Accumulated Amortization	2000 Net Book Value	1999 Net Book Value
Buildings	$ 34,216	$ (684)	$ 33,532	$ 20,543
Office furnishings, fixtures, and other	5,608	(1,769)	3,839	2,560
Research equipment	7,634	(4,154)	3,480	2,781
Commercial manufacturing equipment	2,632	(695)	1,937	1,583
Computer hardware and operating system	12,732	(2,810)	9,922	2,472
Land	2,536	—	2,536	2,321
	$ 65,358	$ (10,112)	$ 55,246	$ 32,260

8 INTANGIBLE ASSETS

(In thousands of Canadian Dollars)	2000	1999
Patents, licenses and rights	$ —	$ 7,392
Less: Accumulated amortization	—	(7,192)
	$ —	$ 200

Patents, licenses and rights consisted of the rights, title and interest respecting the former photodynamic therapy business of Johnson & Johnson (J&J), including the rights to PHOTOFRIN, purchased by the Company in 1987, and certain European marketing rights acquired by the Company in 1996 from American Cyanamid Company. Additional payments based on a percentage of worldwide sales between April 1995 and April 2013 are payable to J&J subject to an annual maximum of U.S.$500,000 and a cumulative maximum of U.S.$4,200,000. Such payments are recorded as selling, general and administrative expense in the fiscal year of the related product sales. As of December 31, 2000, the Company has made cumulative payments to J&J of U.S.$1,029,032 (1999 – U.S.$675,916) pursuant to the acquisition of such rights and an additional amount of U.S.$62,723 has been accrued.

The patents, licenses and rights, including all further obligations for payment to J&J, were transferred to Axcan as part of the sale of the worldwide rights to PHOTOFRIN to Axcan (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights).

9 ACCRUED LIABILITIES

(In thousands of Canadian Dollars)	2000	1999
Royalties	$ 1,501	$ 714
Compensation	3,440	3,623
Other	1,364	1,290
	$ 6,305	$ 5,627

10 LONG-TERM DEBT

(In thousands of Canadian Dollars)	2000	1999
Long-term financing facility	$ 13,645	$ —
Less: Current portion	576	—
	$ 13,069	$ —

During the year, the Company converted $14 million of the Company's construction financing into a long-term financing facility with a major Canadian financial institution. The loan bears interest at 6.93% and matures on April 3, 2003. It is payable in monthly installments of $125,286 for principal and interest amortized over 15 years. The loan is secured by a first security interest in Phase I of the new office and research facilities. Principal repayments, in thousands of Canadian Dollars, over the next three years are as follows:

Year ending December 31,	$
2001	576
2002	618
2003	12,451

11 SHARE CAPITAL

(A) AUTHORIZED SHARES

On May 5, 2000, at the Annual General Meeting of the Company, the shareholders passed a Special Resolution to increase the authorized common share capital of the Company from 100,000,000 common shares to 500,000,000 common shares. There were no other changes to the authorized share capital of the Company during the three-year period ended December 31, 2000.

(B) SHAREHOLDER PROTECTION RIGHTS PLAN

On March 17, 1992, the Company adopted a Shareholder Protection Rights Plan (the Plan) to protect its shareholders from unfair, abusive or coercive take-over strategies. The Plan was approved by the shareholders of the Company on April 28, 1992, subsequently amended by the Company on March 31, 1997 and re-confirmed by shareholders on May 12, 1997. The Plan, as amended, will remain in effect until March 17, 2002, unless terminated earlier. Under the Plan, as amended, holders of common shares are entitled to one share purchase right for each common share held. Generally, if any person or group makes a take-over bid, other than a bid permitted under the plan (a Permitted Bid) or acquires 20% or more of the Company's outstanding common shares without complying with the Plan, the Plan will entitle these holders of share purchase rights to purchase, in effect, common shares of the Company at 50% of the prevailing market price. A take-over bid for the Company can avoid the dilutive effects of the share purchase rights, and therefore become a Permitted Bid, if it complies with provisions of the Plan or if it is expressly approved by the Board of Directors.

(C) STOCK OPTIONS

The Company has four incentive stock option plans which are identified below. All plans provide for the grant of options to purchase common shares to directors, officers and employees of the Company, or any of its subsidiaries, to provide incentive to develop the growth of the Company. The plans are administered by the Executive Compensation Committee appointed by the Board of Directors (the Committee). Under all plans, vesting of stock options is at the discretion of the Committee and during 2000 occurs as follows: 1) for senior executives – ratably over a three-year period, and 2) for directors and other employees – one half at the time of granting and the remainder ratably over three years. Beginning in 2001, vesting of stock options for all employees and directors occurs ratably over three years.

(I) 1995 INCENTIVE STOCK OPTION PLAN (1995 PLAN) The 1995 Plan, which provided for the issuance of up to 4,000,000 common shares, was approved by shareholders in May 1995 and the maximum term of any option granted under the 1995 Plan was five years. No option may be granted under the 1995 Plan if it would result in the optionee holding options or rights to acquire in excess of 5% of the issued and outstanding common shares (on a non-diluted basis). The Committee may suspend, amend, or terminate the 1995 Plan at any time without notice, provided that no outstanding option is adversely affected thereby. The 1995 Plan automatically terminated on February 10, 1998, but options granted before this date may be exercised until they expire in accordance with their original terms. At December 31, 2000, options to purchase an aggregate total of 658,540 common shares were outstanding under the 1995 Plan and exercisable in the future at prices ranging between $4.56 and $17.13 per common share.

(II) 1998 INCENTIVE STOCK OPTION PLAN (1998 PLAN) The 1998 Plan, which provides for the issuance of up to 5,000,000 common shares, was approved by shareholders in May 1998. The maximum term of any option granted under the 1998 Plan is five years. The exercise price of an option granted is set by the Committee at the time of granting and may not be less than the fair market price of the common shares on the date of the granting. No option may be granted under the 1998 Plan if it would result in the optionee holding options or rights to acquire in excess of 5% of the issued and outstanding common shares (on a non-diluted basis). The Committee may suspend, amend, or terminate the 1998 Plan at any time without notice, provided that no outstanding option is adversely affected thereby. The further approval of the Company's shareholders is required only for amendments that increase the number of shares available for issuance under the 1998 Plan, materially increase the benefits accruing to participants, or materially change the class of persons eligible for the granting of options. The 1998 Plan will automatically terminate on February 10, 2003, unless it has previously been terminated by the Committee, but options granted before the termination of the 1998 Plan may be exercised until they expire in accordance with their original terms. At December 31, 2000, options to purchase an aggregate total of 2,035,235 common shares were outstanding under the 1998 Plan and exercisable in the future at prices ranging between $9.28 and $89.50 per common share.

(III) 2000 INCENTIVE STOCK OPTION PLAN (2000 PLAN) The 2000 Plan, which provides for the issuance of up to 5,000,000 common shares, was approved by shareholders on May 5, 2000. The 2000 Plan is to replace the 1995 Plan and the 1998 Plan. A guideline currently set in place by the Committee is for the maximum term of any option granted under the 2000 Plan not to exceed five years, subject to the right of the Committee to extend the term in certain circumstances. The exercise price of an option granted is set by the Committee at the time of granting and may not be less than the fair market price of the common shares on the date of the granting. No option may be granted under the 2000 Plan if it would result in the optionee holding options or rights to acquire in excess of 5% of the issued and outstanding common shares (on a non-diluted basis). The Committee may suspend, amend, or terminate the 2000 Plan at any time without notice, provided that no outstanding option is adversely affected thereby. The 2000 Plan will automatically terminate on March 1, 2010, unless it has previously been terminated by the Committee, but options granted before termination of the 2000 Plan may be exercised until they expire in accordance with their original terms. At December 31, 2000, options to purchase an aggregate total of 2,879,989 common shares had been granted under the 2000 Plan, of which 2,799,532 were outstanding and exercisable in the future at prices ranging between $43.95 and $108.60 per common share.

Stock option activity with respect to all of the Company's stock option plans is presented below:

	Number of Shares	Exercise Price Per Share Range
Outstanding at December 31, 1997	2,860,710	$ 4.38 – 17.13
Granted	2,316,488	9.28 – 13.78
Exercised	(323,780)	4.50 – 10.88
Canceled	(90,080)	5.44 – 17.13
Outstanding at December 31, 1998	4,763,338	4.38 – 17.13
Granted	2,714,860	30.00 – 60.00
Exercised	(2,607,405)	4.50 – 48.88
Canceled	(82,328)	11.95 – 30.00
Outstanding at December 31, 1999	4,788,465	4.50 – 60.00
Granted	2,889,989	43.95 – 108.60
Exercised	(2,108,634)	4.50 – 108.60
Canceled	(76,513)	4.88 – 108.60
Outstanding at December 31, 2000	5,493,307	$ 4.56 – 108.60

Additional information relating to stock options outstanding as of December 31, 2000 is presented below:

	Options Outstanding			Options Exercisable	
Price Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Shares	Weighted Average Exercise Price
Under $25.00	1,193,766	$ 12.49	2.0	1,026,846	$ 12.86
$25.00 – $49.99	1,820,489	$ 40.20	3.7	1,284,444	$ 40.54
$50.00 – $75.00	36,986	$ 66.00	5.0	9,481	$ 54.12
Over $75.00	2,442,066	$ 103.83	4.4	1,183,106	$ 104.88
	5,493,307			3,503,877	

The number of options issued and outstanding under all plans at any time is limited to 15% of the number of issued and outstanding common shares of the Company. As of December 31, 2000 the number of options issued and outstanding under all plans was less than 9% of the issued and outstanding common shares.

(D) WARRANTS

In relation to a 1995 licensing agreement, an affiliate of Novartis Ophthalmics received a common share purchase warrant to purchase 1,000,000 common shares of the Company until March 21, 1999 at an escalating exercise price to a maximum of $4.41 per share. During January 1999, the common share purchase warrant was exercised for total proceeds of $4,410,000 to the Company.

As part of a private placement of the Company's common shares on December 18, 1996, Beaufour Ipsen Group received a common share purchase warrant to purchase 395,726 common shares for U.S.$5,000,000 (U.S.$12.64 per share) prior to December 18, 1999. During July 1999, the common share purchase warrant was exercised for total proceeds of $7,314,997 ($18.49 per common share) to the Company.

(E) CONVERSION OF SERIES D FIRST PREFERENCE SHARES

The Company received notice from Sanofi-Synthelabo Inc. (Sanofi) of the exercise of its right to convert its holding of 368,069 Series D first preference shares, having a carrying value of $6,850,000, into common shares of the Company. As a result of this notice of conversion, the Company issued 736,138 common shares to Sanofi on January 14, 2000, representing approximately one percent of the Company's issued and outstanding common shares at that time.

12
COLLABORATIVE ARRANGEMENTS

(A) NOVARTIS OPHTHALMICS

On February 6, 1995, the Company signed an agreement with Novartis Ophthalmics to pursue worldwide joint development and commercialization of photodynamic therapy products, including Visudyne and Zinc Phthalocyanine (ZnPc), as potential treatments for certain eye diseases. Under the terms of that agreement, the Company is responsible for 40% to 50% of R&D costs for Visudyne and Novartis Ophthalmics is responsible for the remaining 50% to 60%. The Company and Novartis Ophthalmics will share equally the R&D costs for ZnPc. The Company and Novartis Ophthalmics reconcile joint R&D costs on a quarterly basis and when it results in funding payments to the Company, the Company records such non-refundable amounts as Contract R&D revenue. As of December 31, 2000, the Company has earned $35,808,997 of R&D funding, of which $7,657,061 was recorded as Contract R&D revenue during 2000 (1999 – $15,881,440; 1998 – $7,231,635). The Company and Novartis Ophthalmics do not have an active development program for ZnPc for ophthalmology.

Furthermore, under the terms of the Company's development, marketing and distribution agreement with Novartis Ophthalmics, the Company is responsible for Visudyne manufacturing and product supply and Novartis Ophthalmics is responsible for sales, marketing and distribution. The Company and Novartis Ophthalmics will share equally the profits realized on revenues from product sales after deductions for marketing costs and manufacturing costs (including third-party royalties). Market and business development costs represent the Company's equal share of initial costs associated with planning and initiation of an Expanded Access (EA) Program for Visudyne therapy net of EA pre-commercial revenue realized, and marketing and pre-launch costs incurred up to March 31, 2000. For the three months ended March 31, 2000, the gross costs of $16.3 million for market and business development with Novartis Ophthalmics was reduced by $5.7 million in limited commercial sales and cost recovery received from the EA program outside of North America. The Company's 50% share of the net cost of $10.6 million amounted to $5.3 million for the same period and was recorded in the income statement as Market and business development costs. The EA Program commenced in early September 1999 and will continue in selected countries until marketing clearance for Visudyne is obtained from the relevant regulatory authorities.

On April 17, 2000, the Company and Novartis Ophthalmics announced their intention to expand the existing strategic alliance to other compounds to treat any ocular diseases characterized by neovascularization. Development costs and resulting profits would be shared equally by the Company and Novartis Ophthalmics.

Effective April 1, 2000, the Company commenced recording its share of Visudyne sales revenue due to the commercial launch of Visudyne in major markets.

The Company's revenue from sales of Visudyne was determined as follows:

From April 1, 2000 to December 31, (In thousands of Canadian Dollars)	2000
Visudyne product sales by Novartis Ophthalmics	$ 141,666
Less: Manufacturing and other costs	(11,644)
Less: Sales, marketing and distribution costs	(81,107)
Net operating income from Visudyne sales	$ 48,915
The Company's 50% share	$ 24,458
Add: Manufacturing and other reimbursements	12,966
Total revenue recognized by the Company from Visudyne sales	$ 37,424

For the fiscal year 2000, approximately 66% of total Visudyne sales were in the United States, with Europe and other markets responsible for the remaining 34%.

(B) SANOFI

On January 9, 1996, the Company entered into an agreement with Sanofi Pharmaceuticals, Inc., a predecessor company of the merged firm Sanofi-Synthelabo Inc., granting to Sanofi the exclusive marketing rights of the Company's products for cancerous and precancerous conditions in the United States and the Caribbean.

On June 8, 2000, the Company re-acquired the exclusive PHOTOFRIN marketing and distribution rights in the U.S. and Caribbean from Sanofi on the basis described in Note 13. The rights re-acquired from Sanofi were included in the rights sold to Axcan (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights).

Under the terms of the 1996 agreement, Sanofi purchased 368,069 non-transferable convertible redeemable Series D first preference shares issued at a price of U.S.$13.58 (Cdn. $18.47) per share for total proceeds of U.S.$5,000,000 (Cdn. $6,850,000). The Series D first preference shares were redeemable in full by the Company prior to January 1, 2000 for cash and were convertible in full by Sanofi on or after January 1, 2000 into common shares of the Company, each according to a formula. On January 14, 2000, Sanofi exercised its right to convert the Series D first preference shares to common shares of the Company. As a result, the Company issued 736,138 common shares to Sanofi.

(C) MEDTRONIC AVE, INC. (MEDTRONIC AVE)

On April 30, 1998, the Company announced the formation of a strategic alliance with C.R. Bard, Inc. (Bard) to develop a therapeutic system and procedure for the reduction of arterial restenosis utilizing localized delivery of photodynamic therapy administered during angioplasty procedures. On September 30, 1998, Bard finalized an agreement to sell certain of its businesses, products and technologies consisting of its coronary catheter laboratory business to Arterial Vascular Engineering, Inc. (AVE). Subsequently, AVE was purchased by Medtronic, Inc. and currently operates as a division thereof – Medtronic AVE, Inc. Under the terms of the Company's agreement with Bard, Bard had the option to assign its rights and obligations under the agreement in connection with the sale of all or a substantial portion of Bard's cardiology related assets. Bard completed an assignment of its rights and obligations to Medtronic AVE during 1999. Under terms of the assigned agreement, Medtronic AVE will fund product development and clinical research and will market the final products on an exclusive worldwide basis. The Company is entitled to receive royalty payments from Medtronic AVE and has retained an option to co-fund research and development at a later date in exchange for an increased share of sales revenue. This agreement has not had a significant effect on R&D costs since its inception. Medtronic AVE continues preclinical work associated with the project.

(D) LIGAND PHARMACEUTICALS INC. (LIGAND)

During 1995, the Company entered into a marketing and distribution agreement with Ligand for the exclusive distribution of PHOTOFRIN for the treatment of cancerous and precancerous indications in Canada. Ligand paid the Company an initial licensing fee in 1995. On June 8, 2000, the Company sold the worldwide rights to PHOTOFRIN to Axcan. Concurrent with this sale, the Company has terminated its agreement with Ligand. With this development, the Company will not be receiving further revenue from PHOTOFRIN sales from Ligand.

(E) AMERICAN HOME PRODUCTS CORPORATION (AMERICAN HOME)

An affiliate of American Home, Wyeth-Ayerst Japan, Ltd. (Wyeth-Ayerst), was granted the exclusive marketing and distribution rights for PHOTOFRIN in Japan. In exchange, the Company received between 26% and 29.5% of product sales of PHOTOFRIN in Japan with Wyeth-Ayerst being responsible for all marketing and distribution costs. The Company contracted with Lederle Parenterals, Inc., an affiliate of American Home, to manufacture all clinical and commercial requirements for PHOTOFRIN on standard commercial terms for a five-year term which commenced December 1, 1996. On June 8, 2000, the Company sold the worldwide rights to PHOTOFRIN to Axcan. Concurrent with this sale, the Company has assigned its royalty rights under its agreement with Wyeth-Ayerst to Axcan. With this development, the Company will not be receiving further revenue from PHOTOFRIN sales from Wyeth-Ayerst.

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GAIN ON SALE OF PHOTOFRIN AND RELATED RIGHTS

(In thousands of Canadian Dollars)	2000	1999	1998
Gain on sale of PHOTOFRIN rights	$ 15,673	$ —	$ —
Gain on sale of OPTIGUIDE Fiber Optics rights	1,112	—	—
	$ 16,785	$ —	$ —

On June 8, 2000, the Company finalized the sale of the worldwide rights to PHOTOFRIN to Axcan. Under the terms of the sale, the Company transferred to Axcan the worldwide development, manufacturing and marketing rights to PHOTOFRIN in exchange for consideration consisting of the following:

(all tabular amounts in thousands of Canadian Dollars)	
Cash	$ 2,500
Axcan preferred shares with a redemption value of $13,500,000 redeemable within twelve months in cash or shares of Axcan and valued based on a discount for one year at a rate of 5.88%	12,750
1,283,333 Axcan common shares valued at the market trading price on the date of sale	11,550
Deferred payment of $4 million due in cash or Axcan shares on the earlier of the date of a specified regulatory approval and June 9, 2004, discounted for four years at a rate of 5.88%	3,183

The Company also recorded as a component of the gain the remaining unrecognized deferred revenue relating to the PHOTOFRIN rights in the amount of $5,786,093. In addition on December 31, 2000, the Company is entitled to future milestone payments of up to $15 million, payable in cash or Axcan preferred shares, based on specified future events.

Concurrent with the sale of PHOTOFRIN to Axcan, the Company terminated its agreement with Ligand, the Company's marketing and distribution partner in Canada, and assigned to Axcan its Japanese royalty rights under its agreement with Wyeth-Ayerst. Also, the Company re-acquired the exclusive PHOTOFRIN marketing and distribution rights in the U.S. and Caribbean from Sanofi in exchange for $0.9 million in cash, 641,667 common shares of Axcan valued at $5.8 million, preferred shares of Axcan with a value of $6.4 million and the right to receive up to $10 million in future milestone payments from Axcan. The rights re-acquired from Sanofi were included in the rights sold to Axcan. At closing, Axcan assumed responsibility for the marketing efforts for PHOTOFRIN and future costs and obligations relating to the PHOTOFRIN business, including obligations to J&J.

On November 8, 2000, the Company finalized the sale of its OPTIGUIDE Fiber Optics business to Diomed. Under the terms of the sale, the Company transferred to Diomed its rights to commercialize OPTIGUIDE Fiber Optics in exchange for an initial cash payment of U.S.$25,000, a U.S.$365,000 short-term receivable due within six months after closing, and a U.S.$810,000 long-term receivable which bears interest at 5% and is due two years after closing and payable in cash or an equivalent number of shares at Diomed's option pursuant to a formula.

14
INCOME TAXES

The provision for income taxes of nil in 2000 differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to pretax income principally as a result of the non-taxable portion of the gain on sale of PHOTOFRIN of approximately $5.6 million and the utilization of a previously unrecognized prior year non-capital loss carry forward to eliminate income taxes otherwise payable. The provision for income taxes in 1999 and 1998 is nil principally as a result of the provision of a valuation allowance against the net future income tax benefit which would otherwise have been recognized.

The tax effects of temporary differences that give rise to significant components of the future tax assets and future tax liabilities at December 31, 2000 are presented below:

(In thousands of Canadian Dollars)	2000	1999
Non-capital loss carry forwards	$ 54,554	$ 63,785
Research and development expenditures	30,044	3,254
Book over tax depreciation	3,430	3,484
Deferred revenue	1,094	2,059
Total gross future tax assets	89,122	72,582
Less: valuation allowance	(89,122)	(72,582)
Net future tax assets	—	—
Total gross future tax liabilities	—	—
Net tax assets	$ —	$ —

As at December 31, 2000, the Company has $65,858,000 of R&D expenditures available for tax purposes which have no expiration date. The Company also has non-capital loss carry forward balances for Canadian income tax purposes of $119,583,000 that are available to offset future taxable income, if any, and expire at various dates through to the year 2006. The amount of all R&D expenditures as well as non-capital losses are ultimately subject to final determination by tax authorities.

Realization of the related future tax assets is dependent on generating sufficient taxable income prior to expiration of any loss carry forward balances for tax purposes. Due to the Company's stage of development and operations, the Company believes there is significant uncertainty over the amount of and timing when non-capital losses may be claimed against future taxable income and consequently, a valuation allowance has been provided for against the value of the future tax asset. The valuation allowance is reviewed periodically and when and if the more likely than not criterion is met for accounting purposes, the valuation allowance will be adjusted accordingly by a credit or charge to earnings in that period.

15
FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

As at December 31, 2000 and 1999, the carrying amounts for the Company's Cash and cash equivalents, Short-term investment securities, Short-term investments in Axcan Pharma Inc., Accounts receivable, Accounts payable and Accrued liabilities approximated fair value due to the short-term maturity of these financial instruments. With respect to Accounts receivable, Visudyne revenue and contract R&D receivables comprise the aggregate amounts owing from the Company's co-development partner, Novartis Ophthalmics, as at December 31, 2000 and December 31, 1999. Short-term investments in Axcan Pharma Inc. comprises the Company's investment in the common and preferred shares of Axcan. Long-term investments and advances comprises the long-term receivable from Axcan relating to the sale of PHOTOFRIN and the long-term receivable from Diomed (see Note 13 – Gain on Sale of PHOTOFRIN and Related Rights).

The Company purchases goods and services in both Canadian and U.S. dollars and earns a significant portion of its revenues in U.S. dollars. Foreign exchange risk is managed primarily by satisfying foreign denominated expenditures with cash flows or assets denominated in the same currency. As at December 31, 2000, the Company does not have any forward currency contracts or other financial derivatives in place to hedge exchange risk.

16

COMMITMENTS

(A) LEASE COMMITMENTS

During 1999, the Company extended its lease to 2004 for a portion of office and laboratory space previously occupied and entered into an operating lease, which will expire in 2002, for additional office space near its new facility. On December 31, 2000, the Company surrendered a portion of its previously occupied space. The Company has also entered into operating leases for office equipment. The minimum future rental commitments for the leases which are outstanding at year end aggregate $1,409,843 payable over the next four years as follows:

Year ending December 31,	$
2001	662,874
2002	421,279
2003	205,030
2004	120,660

The Company is also responsible for its proportionate share of operating costs under the premise leases. During the year ended December 31, 2000, lease payments were $1,151,098 (1999 – $1,416,460; 1998 – $1,244,000).

(B) NEW FACILITIES

The Company has completed the construction of its new multi-phase office and research facilities in Vancouver, B.C. Occupancy of Phase I occurred in January 2000 while occupancy of Phase II occurred in November 2000.

Final total project costs for Phase I, including land and soft costs, was approximately $24 million and has been paid. Total project costs for Phase II are expected to be approximately $13.5 million. As at December 31, 2000, $13 million has been expended or incurred on Phase II.

17

DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada which differ in certain material respects from those applicable in the United States. Had the Company followed U.S. GAAP, certain items on the Consolidated Statements of Operations, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows would have been reported as follows:

(I) EFFECT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, (In thousands of Canadian Dollars except per share information)	2000	1999	1998
Net income (loss) per Canadian GAAP	$ 9,453	$ (33,336)	$ (23,797)
Adjustment to eliminate effect of retroactive change in accounting policy (c)	—	(445)	(139)
Adjustment for intrinsic value of employee stock options amended as part of severance arrangements (a)	(1,942)	—	—
Net income (loss) per U.S. GAAP before cumulative effect of change in accounting policy	$ 7,511	$ (33,781)	$ (23,936)
Cumulative effect of change in accounting policy (c)	(671)	—	—
Net income (loss) per U.S. GAAP	$ 6,840	$ (33,781)	$ (23,936)
Adjustment for premium on conversion value of first preference shares (b)	—	(2,645)	(2,644)
Net income (loss) per U.S. GAAP available to common shareholders	$ 6,840	$ (36,426)	$ (26,580)
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE PER U.S. GAAP:			
Before change in accounting policy	$ 0.11	$ (0.59)	$ (0.50)
Change in accounting policy	$ (0.01)	$ —	$ —
Basic and diluted net income (loss) per share per U.S. GAAP	$ 0.10	$ (0.59)	$ (0.50)

(II) EFFECT ON SELECTED ITEMS ON THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian Dollars)	2000	1999	1998
Common shares under U.S. GAAP (b)	$ 539,722	$ 467,604	$ 228,953
First preference shares under U.S. GAAP (b)	—	$ 13,851	$ 11,206
Additional paid-in capital under U.S. GAAP (a)	$ 1,942	—	—
Short-term investments in Axcan Pharma Inc. under U.S. GAAP (d)	$ 16,700	—	—
Accumulated deficit under U.S. GAAP	$ (185,292)	$ (192,132)	$ (155,706)
Accumulated other comprehensive income under U.S. GAAP (d)	$ 4,331	—	—

Due to the non-cash nature of these GAAP differences as disclosed, there is no effect on the Consolidated Statements of Cash Flows.

(A) ACCELERATION OF STOCK OPTION VESTING PROVISIONS IN CONNECTION WITH EMPLOYEE TERMINATIONS

During 2000, the Company accelerated the vesting provisions of employee stock options for two former employees as part of their severance arrangements. As these options would have expired unvested in the absence of this acceleration, under U.S. GAAP the Company would have recorded a compensation expense equal to the intrinsic value of the options on the date of acceleration. The intrinsic value is calculated as the excess of the trading price of the Company's common shares over the exercise price of the options at the date of acceleration.

(B) ACCOUNTING FOR PREFERRED SHARE CONVERSION

Under U.S. GAAP, the beneficial conversion feature attached to the Series D first preference shares results in an accretion of the benefit as a return to the preferred shareholders and an increase in the stated amount of the preferred shares over the period that the benefit vests.

(C) CHANGE IN ACCOUNTING POLICY

Under Canadian GAAP the effect of the change in accounting policy described in Note 2 is recorded on a retroactive basis as an adjustment to prior years' reported losses. Under U.S. GAAP the cumulative effect of the change is recorded as an adjustment to the current year's reported earnings.

(D) ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES

In May 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS No. 115, management determines the appropriate classification of investments in debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Under SFAS No. 115, the Company would classify its Short-term investment securities as held-to-maturity securities, which are to be carried at amortized cost. The unrealized gains and losses, if any, are not included in the Consolidated Statements of Operations as the gains and losses are unlikely to be realized due to the Company's intent to hold the underlying securities to maturity. As for the Short-term investments in Axcan Pharma Inc., under SFAS No. 115, the Company would classify the portion related to common shares as available-for-sale securities and accordingly, is required to include the net unrealized holding gain on these securities in other comprehensive income. The portion of the Short-term investments in Axcan Pharma Inc. related to preferred shares are classified under SFAS No. 115 as held-to-maturity securities and are accounted for in the same manner as the Company's Short-term investment securities. SFAS No. 130 "Reporting Comprehensive Income" establishes standards for the reporting and display of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general purpose financial statements. Details would be disclosed as follows:

Year ended December 31, (In thousands of Canadian Dollars)	2000	1999	1998
Net income (loss) under U.S. GAAP	$ 6,840	$ (33,781)	$ (23,936)
Other comprehensive income adjustment to unrealized gains on "available for sale" securities	$ 4,331	—	—
Comprehensive net income (loss) under U.S. GAAP	$ 11,171	$ (33,781)	$ (23,936)

(E) EARNINGS (LOSS) PER SHARE

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share". SFAS No. 128 redefined earnings per share under U.S. GAAP and replaced primary earnings per share with basic earnings per share and fully diluted earnings per share with diluted earnings per share. The net income (loss) per share under U.S. GAAP, as reported for all years presented, is equal to the basic net income (loss) per share as prescribed by SFAS No. 128. Diluted net income (loss) per share under SFAS No. 128 is based on the weighted average number of common shares outstanding, which considers the dilutive effect of share options by applying the Treasury Stock method. The effect of stock options was anti-dilutive for 1999 and 1998. The diluted earnings per share for 2000 is computed based on the following weighted average number of shares calculated using the Treasury Stock method:

Year ended December 31,	2000
Weighted average shares used in computation of basic net income per share	66,875
Weighted average shares from assumed conversion of dilutive options	1,864
Weighted average shares used in computation of diluted net income per share	68,739

(F) ACCOUNTING FOR STOCK BASED COMPENSATION

Under U.S. GAAP, the Company's stock option plans are accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and the Company makes pro forma disclosures of operating results as if it had adopted the fair value method under SFAS No. 123, "Accounting for Stock Based Compensation". Canadian GAAP does not require recognition nor disclosure of the fair value of stock based compensation costs in the financial statements. The following pro forma financial information presents the net income (loss) and basic income (loss) per common share had the Company recognized stock based compensation in accordance with SFAS No. 123:

Year ended December 31, (In thousands of Canadian Dollars except per share information)	2000	1999	1998
Net income (loss) per U.S. GAAP before change in accounting policy			
As reported	$ 7,511	$ (33,781)	$ (23,936)
Pro forma	$ (56,456)	$ (76,545)	$ (33,750)
Basic net income (loss) per common share per U.S. GAAP before change in accounting policy			
As reported	$ 0.11	$ (0.59)	$ (0.50)
Pro forma	$ (0.84)	$ (1.29)	$ (0.68)

The pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years.

The weighted average fair value of stock options granted in 2000 was $37.63 whereas the 1999 and 1998 options were valued at $20.03 and $10.99 respectively. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date, under the following weighted average assumptions:

	2000	1999	1998
Dividend Yield	—	—	—
Annualized Volatility	57.0%	53.3%	53.0%
Risk-free Interest Rate	6.1%	5.4%	5.0%
Expected Life (Years)	2.5	5	5

(G) RECENT PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and hedging activities. This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The statement is effective for fiscal years beginning after June 15, 2000, as amended by SFAS No. 137. The Company is currently assessing the impact of this pronouncement on its consolidated financial position and results of operations.

In December, 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB No. 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. In October 2000, the SEC issued further guidance with respect to adoption of specific issues addressed by SAB No. 101. The adoption of SAB No. 101 did not have a material effect on the Company's consolidated financial position or results of operations.

In March 2000, the FASB issued Interpretation No. 44 ("FIN No. 44"), Accounting for Certain Transactions Involving Stock Compensation – an interpretation of APB 25. FIN No. 44 clarifies (i) the definition of employee for purposes of applying APB Opinion No. 25, (ii) the criteria for determining whether a plan qualifies as a noncompensatory plan, (iii) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (iv) the accounting for an exchange of stock compensation awards in a business combination. FIN No. 44 is effective July 1, 2000 but certain conclusions in this interpretation cover specific events that occur after either December 15, 1998, or January 12, 2000. The adoption of certain of the conclusions of FIN No. 44 covering events occurring during the period after December 15, 1998 or January 12, 2000 did not have a material effect on the Company's consolidated financial position and results of operations. The adoption of the remaining conclusions did not have a material effect on the financial position or results of operations.

18 SEGMENTED INFORMATION

The Company is engaged in the research, development and commercialization of light-activated drugs used in photodynamic therapy and operates in one reportable operating segment.

Details of revenues and property and equipment and other assets by geographic segments are as follows:

(I) REVENUES[2]

Year ended December 31, (In thousands of Canadian Dollars)	2000	1999[1]	1998[1]
United States	$ 38,845	$ 2,294	$ 1,468
Europe	8,618	24,069	10,802
Other	1,758	318	212
	$ 49,221	$ 26,681	$ 12,482

(II) PROPERTY AND EQUIPMENT AND OTHER ASSETS

December 31, (In thousands of Canadian Dollars)	2000	1999
United States	$ 1,361	$ 1,700
Canada	53,885	30,505
Other	—	255
	$ 55,246	$ 32,460

[1] As restated – see Note 2

[2] Revenues are attributable to a geographic segment based on location of customer for royalties on product sales and location of head office of collaborative partner in the case of revenues from contract research and development and collaborative arrangements.

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CONTINGENCIES

(A) On April 24, 2000, Massachusetts Eye and Ear Infirmary (MEEI) filed a civil suit against the Company in the United States District Court for the District of Massachusetts seeking to establish exclusive rights for MEEI as the owner of certain inventions relating to the use of verteporfin as the photoactive agent in the treatment of certain eye diseases including AMD. The lawsuit relates, in part, to an ongoing dispute involving U.S. Patent No. 5,798,349 (the "349 Patent") which was issued on August 25, 1998 to the Company, MEEI and Massachusetts General Hospital (MGH) as co-owners. The complaint alleges breach of contract, misappropriation of trade secrets, conversion, misrepresentation, unjust enrichment, unfair trade practices and related claims and asks that the Court: (i) declare MEEI the owner of certain inventions claimed in the '349 Patent', (ii) enjoin the Company from infringement of those claims or any action that would diminish the validity or value of such claims, (iii) declare that the Company breached an agreement with MEEI to share equitably in any proceeds derived as a result of collaboration leading to the '349 patent', (iv) impose a constructive trust upon the Company for any benefit that the Company has or will derive as a result of the '349 Patent', and (v) award MEEI monetary relief for misappropriation of trade secrets in an amount equal to the greater of MEEI's damages or the Company's profits from any such misappropriation, and double or treble damages under Massachusetts law.

On June 30, 2000, the Company served an answer denying the material allegations of the complaint and a counterclaim asserting claims against MEEI and two employees of MEEI. The Company's counterclaim seeks: (i) to correct inventorship on the '349 Patent' by adding an additional MGH inventor to the existing list of inventors from the Company, MGH and MEEI; (ii) a declaration that the Company and MGH are joint owners of the '349 Patent'; (iii) a determination that MEEI is liable to the Company for conversion and unfair trade practices under Massachusetts law; (iv) an injunction to prohibit MEEI from prosecuting any patent application claiming inventions already claimed in the '349 Patent'; and (v) an award of damages and attorneys' fees. MEEI filed and served an answer to the Company's counterclaim on September 5, 2000.

The Company believes MEEI's claims are without merit and intends to vigorously defend against such actions. The outcome of this claim is not presently determinable and there can be no assurance that the matter will be resolved in favor of the Company. If the lawsuit is not resolved in the Company's favor, the Company may be obliged to pay an additional royalty or other reasonable compensation for access to the inventions covered by the claims.

(B) On January 29, 2001, a proposed securities class action was filed in the United States District Court for the Southern District of New York on behalf of purchasers of the Company's common shares between August 1, 2000 and December 14, 2000. Since that time, at least three other proposed class actions have been filed in the same court alleging claims virtually identical to those alleged in the original complaint.

The complaints name as defendants the Company; Julia Levy, President, Chief Executive Officer and a Director of the Company; and Kenneth Galbraith, the Company's former Executive Vice President, Chief Financial Officer and Corporate Secretary. The defendants are charged with violating Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

The plaintiffs allege that on December 14, 2000, the Company announced that it expected to miss its Visudyne sales estimates for the fourth-quarter 2000, and that in response, the Company's common share price dropped approximately 31%. The plaintiffs claim that the Company's December 14, 2000 statements contradicted prior information issued by the defendants concerning the demand for Visudyne and the Company's prospects. The plaintiffs allege that the defendants overstated the demand for Visudyne, did not properly disclose reimbursement issues relating to Visudyne and that the defendants had no basis in the months preceding the December announcement for their projections of fourth-quarter sales. The plaintiffs further allege that the intent of the individual defendants to mislead investors can be inferred from their sale of a substantial amount of the Company's common shares during the months of August and September 2000. The plaintiffs seek injunctive relief, fees and expenses and compensatory damages in an unspecified amount.

The Company believes the plaintiffs' claims are without merit and intends to vigorously defend against such actions. The outcome of this claim is not presently determinable.

A negative judgement or likely loss with respect to one or both of the above-mentioned claims, if any, will be recorded in the period it becomes determinable.

20 SUBSEQUENT EVENTS

Subsequent to December 31, 2000, the Company agreed to guarantee the lease payments of a tenant who will be renting office space previously occupied by the Company. The total amount of the guarantee is $480,776 as of January 1, 2001, and decreases proportionately over the term of the lease from January 1, 2001 to December 31, 2002.

SELECTED FINANCIAL DATA

ANNUAL FINANCIAL DATA

Set forth below is selected consolidated financial data for, and as of the end of, each of the years in the five-year period ended December 31, 2000, derived from the consolidated financial statements of the Company, prepared under Canadian generally accepted accounting principles, that have been audited by Deloitte & Touche LLP. The information below is not necessarily indicative of the results of future operations and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and Notes thereto.

Year ended December 31, (In thousands of Canadian Dollars except per share information)	2000	1999[1]	1998[1]	1997[1]	1996
CONSOLIDATED STATEMENT OF OPERATIONS DATA					
Total revenues	$ 49,221	$ 26,681	$ 12,482	$ 5,221	$ 2,825
Research and development costs	48,839	48,139	34,094	22,977	13,636
Net income (loss)	9,453	(33,336)	(23,797)	(19,198)	(14,197)
Net income (loss) per common share	0.14	(0.54)	(0.45)	(0.37)	(0.29)
CONSOLIDATED BALANCE SHEET DATA					
Cash, cash equivalents and short-term investment securities	$ 248,063	$ 257,333	$ 78,245	$ 89,788	$ 97,151
Working capital	301,877	260,840	85,187	87,941	104,487
Total assets	386,000	321,765	103,223	101,223	112,195
Preferred shares	—	6,850	6,850	6,850	6,850
Shareholders' equity	349,522	288,652	83,337	82,833	99,357

[1] As restated – see Note 2

QUARTERLY FINANCIAL DATA

Set forth below is selected unaudited consolidated financial data for the fiscal quarters of 2000 and 1999:

Three Months Ended (In thousands of Canadian Dollars except per share information)	March 31	June 30	September 30	December 31
2000				
Total revenues	$ 2,119	$ 10,385	$ 15,448	$ 21,269
Research and development costs	9,582	13,246	10,278	15,733
Net income (loss)	(12,522)	14,207	4,251	3,517
Net income (loss) per common share	(0.19)	0.21	0.06	0.05
1999 [1]				
Total revenues	$ 4,701	$ 4,658	$ 6,366	$ 10,956
Research and development costs	9,665	11,647	14,036	12,791
Net income (loss)	(5,911)	(6,086)	(9,715)	(11,624)
Net income (loss) per common share	(0.10)	(0.10)	(0.15)	(0.18)

[1] As restated – see Note 2

STOCK MARKET INFORMATION

The common shares of the Company trade in Canada on The Toronto Stock Exchange under the symbol "QLT" and are quoted in the United States on The Nasdaq Stock Market under the symbol "QLTI". The Company has not paid cash dividends on its common shares since its inception and does not anticipate doing so in the foreseeable future. The Company intends to retain future earnings, if any, and capital for use in the expansion of its business. The following table sets forth, for the periods indicated, the high and low closing sales prices and trading volume of the common shares, as reported by The Toronto Stock Exchange and The Nasdaq Stock Market. The prices reflect the effect of the two-for-one common share stock split during 1999.

	The Toronto Stock Exchange			The Nasdaq Stock Market		
	High ($ Cdn.)	Low ($ Cdn.)	Volume	High ($ U.S.)	Low ($ U.S.)	Volume
2000						
Q4	$ 105.00	$ 41.95	21,703,537	$ 69.38	$ 28.00	97,846,728
Q3	119.00	82.50	13,356,364	80.19	56.00	69,538,474
Q2	115.00	62.00	9,237,936	77.31	40.63	55,298,085
Q1	115.00	72.00	12,485,109	80.00	49.88	58,392,762
1999						
Q4	$ 92.00	$ 47.00	10,214,140	$ 64.13	$ 31.88	60,351,341
Q3	63.50	40.45	10,870,236	42.69	27.25	33,821,324
Q2	42.03	28.05	12,875,008	27.53	19.09	36,636,616
Q1	39.58	17.03	34,790,494	26.19	11.25	27,275,268

The last reported sale price of the common shares on The Toronto Stock Exchange and on The Nasdaq Stock Market on February 28, 2001, was $44.71 and U.S.$29.19, respectively.

As of February 28, 2001, there were 427 registered holders of the common shares of the Company, 277 of whom were residents of the United States. Of the total 67,730,441 common shares outstanding, the portion held by residents of the United States was 20,520,480 or 30%.

CORPORATE DIRECTORY

DIRECTORS

E. Duff Scott [2,4]
President, Multibanc NT Financial Corp.

Peter A. Crossgrove [1,3]
Director, Dundee Realty Corporation

Jan Dlouhy Ph.D. [1,2]
Retired Vice President, Licensing and Acquisitions, Medical and Agricultural Groups, American Cyanamid Company

Robert J. Feeney Ph.D. [2,3]
Retired General Partner, Hambrecht and Quist Life Science Technology Fund

Anthony F. Griffiths [1]
Corporate Director

Ronald D. Henriksen [3]
President of Indiana University Advanced Research & Technology Institute

Julia G. Levy Ph.D.
President and Chief Executive Officer, QLT Inc.

SENIOR MANAGEMENT

Julia G. Levy Ph.D.
President and Chief Executive Officer

Mohammad Azab MD
Senior Vice President
Clinical Research and Medical Affairs

Celia Courchene
Vice President, Business Development and Legal Affairs

Alain Curaudeau
Vice President, Project Planning and Management

David Dolphin Ph.D.
Vice President, Technology Development

Iman Karmadi
Vice President, Manufacturing

Edwin Levy Ph.D.
Senior Vice President, Corporate Development

Linda M. Lupini
Vice President, Human Resources and Administration

Lawrence D. Mandt
Senior Vice President, Quality and Regulatory Affairs

John R. North
Senior Vice President, Scientific Affairs and Chief Scientific Officer

Lee Anne Pilson
Senior Vice President, Marketing

Janice Stasiuk
Vice President, Finance and Information Systems and acting Chief Financial Officer

Elayne Wandler
Vice President, Corporate Communications

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TRANSFER AGENT AND REGISTRAR OFFICE
Computershare Trust Company of Canada
Stock and Bond Transfer Department
510 Burrard Street
Vancouver, BC Canada V6C 3B9
For change of address, lost stock certificates and other related inquiries, please write to the above address.

INDEPENDENT AUDITORS
Deloitte & Touche, Vancouver, Canada

STOCK LISTING
The Company's Common Shares are traded on the Toronto Stock Exchange under the symbol QLT and on The Nasdaq Stock Market under the symbol QLTI.

FORM 10-K ANNUAL REPORT
A copy of the Company's Form 10-K Annual Report, as filed with the Securities and Exchange Commission, is available on our website www.qltinc.com or upon request from:
QLT Inc.
Investor Relations Department
887 Great Northern Way
Vancouver, British Columbia
Canada V5T 4T5

ANNUAL MEETING
The Annual Meeting of Shareholders will be held at The Fairmont Waterfront Hotel, Vancouver at 10:00 a.m. on Wednesday, April 25, 2001.

1 Member of the Audit Committee, Chair: Anthony F. Griffiths
2 Member of the Nominating Committee, Chair: E. Duff Scott
3 Member of the Executive Compensation Committee, Chair: Peter A. Crossgrove
4 Chairman of the Board of Directors

QLT Inc.
www.qltinc.com